

2 November 2015

**PHILIPPINE STOCK EXCHANGE, INC.**

**Disclosure Department**

4/F, Philippine Stock Exchange Center  
PSE Center, Exchange Road  
Ortigas Center, Pasig City

Attention : **MS. JANET A. ENCARNACION**  
Head, Disclosure Department  
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Subject: 2014 Definitive Information Statement  
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Gentlemen:

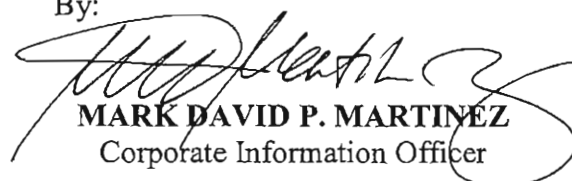
Enclosed herewith is our 2014 Definitive Information Statement, for the Annual Shareholders Meeting on 3 December 2015, which was filed with the Securities and Exchange Commission.

We trust that you will find the attached document in order.

Very truly yours,

**PAXYS, INC.**

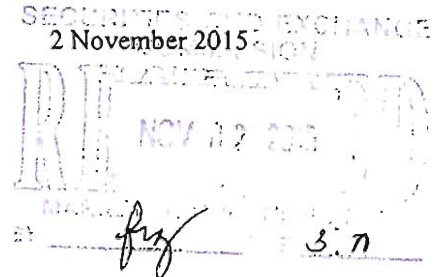
By:

  
**MARK DAVID P. MARTINEZ**  
Corporate Information Officer

# PAXYS, INC.

15<sup>th</sup> Floor 6750 Ayala Office Tower  
Ayala Avenue, Makati City, 1226 Philippines  
Tel No. (+632) 908-7500 / Fax No. (+632) 908-7501

**SECURITIES AND EXCHANGE COMMISSION**  
SEC Building, EDSA, Greenhills  
Mandaluyong City



Attention: Mr. Vicente Graciano P. Felizmenio, Jr.  
Director – Markets and Securities Regulation Department

Subject: Definitive Information Statement  
(SEC Form 20-IS)

Gentlemen:

In compliance with the Securities and Exchange Commission's ("SEC") SRC Rule 20 and in connection with Annual Stockholders' Meeting of **Paxys, Inc.** ("Company"), which will be held on 3 December 2015, we submit herewith the following documents:

1. Definitive Information Statement for 2014 (SEC Form 20-IS);
2. Notice and Agenda;
3. Proxy Form;
4. Statement of Management's Responsibility for Financial Statements;
5. Consolidated Financial Statements for the year ended 31 December 2014; and
6. Report of Independent Auditor on Supplementary Schedule.

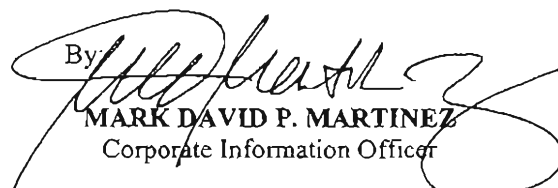
Copies of the foregoing documents will be distributed to the stockholders on or before 9 November 2015, while the 3<sup>rd</sup> Quarter Report for 2015 (SEC Form 17-Q) will be distributed at the Annual Meeting.

Likewise attached are copies of the (a) Certification that none of the Company's directors or officers are connected with any government agency; (b) Undertaking to submit the Company's Certification on the qualifications and disqualifications of its independent directors; and (c) Undertaking that the Company's 3<sup>rd</sup> Quarter Report for 2015 (SEC Form 17-Q) will be submitted to the SEC, uploaded to the Company's website, and distributed during the Annual Meeting.

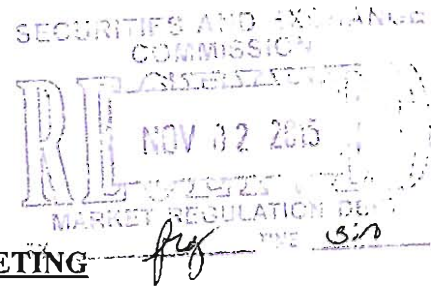
We trust that you will find the attached documents in order.

Very truly yours,

**PAXYS, INC.**

By   
**MARK DAVID P. MARTINEZ**  
Corporate Information Officer





**NOTICE OF ANNUAL STOCKHOLDERS' MEETING**

To all Stockholders:

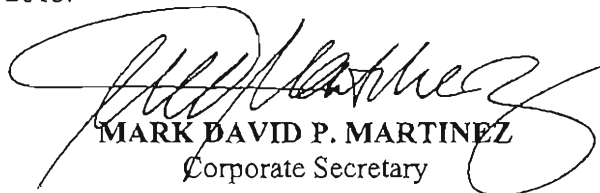
Please be advised that the annual meeting of the stockholders of **PAXYS, INC.**, will be held on **3 December 2015** at Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City at 2:00 PM. The agenda is as follows:

1. Call to Order
2. Proof of Notice and Certificate of Quorum
3. Approval of Minutes of previous Stockholders' Meeting
4. Management Report and Audited Financial Statements for the year ended 31 December 2014
5. Ratification of Previous Corporate Acts
6. Election of Directors
7. Appointment of External Auditors
8. Other Matters
9. Adjournment

For purposes of the meeting, stockholders of record as of 30 October 2015 are entitled to notice of and to vote at the said meeting. Registration for the said meeting begins at 12:30 PM. For convenience in registering your attendance, please have available some form of identification, such as a driver's license, voter's ID, TIN card, SSS card or passport.

If you will not be able to attend the meeting but would like to be represented thereat, you may submit your proxy form, duly signed and accomplished, to the Corporate Secretary at 15<sup>th</sup> Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City on or before 23 November 2015. Beneficial owners whose shares are lodged with PDTC or registered under the name of a broker, bank or other fiduciary allowed by law must, in addition to the required ID, present a notarized certification from the owner of record that he is the beneficial owner, indicating thereon the number of shares. Corporate shareholders shall likewise be required to present a notarized secretary's certificate attesting to the authority of its representative to attend and vote at the stockholders' meeting. Validation of proxies will be held not later than 27 November 2015 at the office of the Company's stock transfer agent.

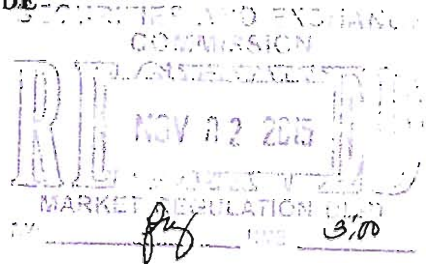
Makati City, Philippines, 13 October 2015.

  
**MARK DAVID P. MARTINEZ**  
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE



1. Check the appropriate box:

Preliminary Information Statement

Definitive Information Statement

2. Name of Registrant as specified in its charter: PAXYS, INC.

3. Province, country or other jurisdiction of incorporation or organization PHILIPPINES

4. SEC Identification Number: 6609

5. BIR Tax Identification: Code: 000-233-218-000

6. 15/F 6750 Ayala Office Tower, Ayala Avenue, Makati City 1226  
Address of principal office Postal Code

7. Registrant's telephone number, including area code (+632) 908-7500

8. December 3, 2015 at the Manila Golf and Country Club, Harvard Road, Forbes Park, Makati City at 2:00 PM  
Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders  
November 9, 2015.

10. In case of Proxy Solicitations: **Not Applicable**

Name of Person Filing the Statement/Solicitor: \_\_\_\_\_  
Address and Telephone No.: \_\_\_\_\_

11. Securities registered pursuant to Sections 8 and 12 of the Securities Regulations Code (information on number of shares and amount of debt is applicable only to corporate registrants):

**a) Authorized Capital Stock**

Common shares, ₱1.00 par value 1,800,000,000 shares

**b) Issued and Outstanding Shares**

Common shares, ₱1.00 par value 1,148,534,866 shares

**c) Amount of Debt Outstanding as of December 31, 2014** ₱-

12. Are any or all of registrant's securities listed on a Stock Exchange?

Yes  No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:  
Philippine Stock Exchange - Common Shares of Stock

**PAXYS, INC.  
INFORMATION STATEMENT**

**PART I: GENERAL INFORMATION**

**Date, Time and Place of Meeting of Security Holders:**

The annual stockholders' meeting of Paxys, Inc. (hereafter the "Registrant" or "Company" or "Paxys") will be held on **December 3, 2015 at the Manila Golf and Country Club, Harvard Road, Forbes Park, Makati City at 2:00 PM.**

The complete mailing address of the principal office of the Registrant is 15<sup>th</sup> Floor 6750 Ayala Office Tower, Ayala Avenue, Makati City.

The approximate date when the information statement will be first sent to security holders will be on November 9, 2015.

**Dissenters' Right of Appraisal**

There are no matters to be taken up during the annual stockholders' meeting with respect to which the law allows the exercise of the appraisal right by any dissenting stockholder. The Corporation Code limits the exercise of the appraisal right to the following instances:

- a. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence (Section 81);
- b. In case of the sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets (Section 81);
- c. In case of merger or consolidation (Section 81);
- d. In case of investments in another corporation, business or purpose (Section 42).

Since the matters to be taken up do not include any of the foregoing, the appraisal right will not be available.

However, if at any time after this Information Statement has been sent out, an action which may give rise to the right of appraisal is proposed at the meeting, any stockholder who voted against the proposed action and who wishes to exercise such right must make a written demand, within thirty (30) days after the date of the meeting or when the vote was taken, for the payment of the fair market value of his shares. Upon payment, he must surrender his certificates of stock. No payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment.

## Interest of Certain Persons in or Opposition to Matters to be Acted Upon

The directors, officers, nominees for directors and their associates do not have a substantial interest, direct or indirect, in any matter to be acted upon, other than election to office.

The registrant has not been informed in writing by any person that he intends to oppose any action to be taken by the Company at the meeting.

## **PART II: CONTROL AND COMPENSATION INFORMATION**

### **Voting Securities and Principal Holders Thereof**

As of October 31, 2015 and the record date October 30, 2015, there are 1,148,534,866 outstanding common shares entitled to notice and to vote at the meeting.

The record date for the purpose of determining the stockholders entitled to notice of, and to vote at, the Annual Meeting of Stockholders is October 30, 2015.

The election of the board of directors for the current fiscal year will be taken up and all stockholders have the right to cumulate their votes in favor of their chosen nominees for director in accordance with Section 24 of the Corporation Code. Section 24 provides that a stockholder, may vote such number of shares registered in his name as of the record date for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. The total number of votes cast by such stockholder should not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected.

### **Security Ownership of Certain Record and Beneficial Owners and Management**

#### **(1) Persons Known to the Registrant to be Directly or Indirectly the Record or Beneficial Owner of More than 5% of Any Class of the Registrant's Voting Securities:**

As of October 31, 2015, Paxys has no knowledge of any individual or any party who beneficially owns in excess of 5% of Paxys common stock except as set forth in the table below:

Title of Class	Name and Address of Record Owner & Relationship with Issuer	Name of Beneficial Owner & Relationship with Record Owner	Citizenship	Number of Shares Held	Percent of Class
Common	All Asia Customer Services Holdings, Ltd. (AACSHL) Level 54, Hopewell Centre, 183 Queen's Road East Hong Kong	Expac Ltd. is the controlling shareholder of AACSHL. Expac Ltd. has no other relationship with Paxys. Paxys has no information on the ownership of Expac Ltd.	Hong Kong	630,844,038	54.93%
Common	Paxys N.V.	Paxys, Inc. owns 100% equity of Paxys N.V.	Curacao	345,622,477	30.09%
Common	PCD Nominee Corp. G/F MSE Bldg., 6767 Ayala Ave., Makati City	Beneficial owners are the clients of the PCD participants' brokers. There are no beneficial owners owning more than 5% of the Registrant's capital stock.	Philippines	170,085,375*	14.81%
<b>Total</b>				<b>1,146,551,890</b>	<b>99.83%</b>

*\*This excludes the 9,583,218 lodged shares of AACSHL and the 345,622,477 lodged shares of Paxys N.V.*

The right to vote the shares of AACSHL shall be exercised through its duly appointed proxy. AACSHL has previously appointed Mr. Tarcisio M. Medalla, Chairman and President of Paxys, Inc.,

as proxy for past stockholders meetings. AACSHL shall appoint him proxy again for this year's meeting.

The shares held by AACSHL include 3,970,818 shares lodged with AB Capital Securities, Inc. and 5,612,400 shares lodged with S.J. Roxas & Co., Inc.

In October 2014, Paxys N.V., a wholly-owned subsidiary of Paxys, completed the purchase of 345,622,477 shares of Paxys, by way of a tender offer. As of 31 October 2015, the public ownership level of Paxys is at 14.96%.

Paxys N.V. has appointed Mr. Tarcisio M. Medalla, Chairman and President of Paxys, Inc., as proxy for this year's stockholders meeting.

**(2) Security Ownership of Management (as of October 31, 2015):**

<b>Title of Class</b>	<b>Name of Beneficial Owner</b>	<b>Amount of Beneficial Ownership</b>	<b>Citizenship</b>	<b>Percent of Class</b>
Common	<b>Tarcisio M. Medalla</b> Chairman & President	1,120	Filipino	0.0001%
Common	<b>Christopher B. Maldia</b> Director	129,520	Filipino	0.0113%
Common	<b>Ghee Keong Lim</b> Director	82,800	Malaysian	0.0072%
Common	<b>Roger Leo A. Carino</b> Director and Treasurer	1,120	Filipino	0.0001%
Common	<b>Roberto A. Atendido</b> Director	1,000	Filipino	0.0001%
Common	<b>George Y. Sycip</b> Independent Director	1,120	American	0.0001%
Common	<b>Jose Antonio A. Lichauco</b> Independent Director	1,120	Filipino	0.0001%
Common	<b>Mark David P. Martinez</b> Corporate Secretary/ CIO	1,000	Filipino	0.0001%
Common	<b>Sivam Kandavanam</b> Director	1,000	Malaysian	0.0001%
Common	<b>Ana Maria A. Katigbak</b> Assistant Corporate Secretary	0	Filipino	-
	<b>Total</b>	<b>219,800</b>		<b>0.0192%</b>

**(3) Voting Trust Holder of 5% or more**

There are no voting trust agreements or any other similar agreement which may result in a change in control of the Company of which the Company has any knowledge.

**(4) Changes in control**

No change in control of the Registrant has occurred since the previous fiscal year.



## Directors and Executive Officers

NAME	POSITION	AGE	CITIZENSHIP
Tarcisio M. Medalla	Chairman & President	66	Filipino
Roger Leo A. Cariño	Director/ Treasurer	56	Filipino
Christopher B. Maldia	Director	55	Filipino
Ghee Keong Lim	Director	47	Malaysian
Roberto A. Atendido	Director	67	Filipino
Sivam Kandavanam	Director	58	Malaysian
George Y. Sycip	Independent Director	59	American
Jose Antonio Lichauco	Independent Director	56	Filipino
Mark David P. Martinez	Corporate Secretary/ CIO	34	Filipino
Ana Maria A. Katigbak-Lim	Assistant Corporate Secretary/CIO	46	Filipino

**Mr. Tarcisio M. Medalla** has been a Director and President of the Company since December 30, 2003. He is concurrently a Director of UT Global Services Limited, a privately held company with an RHQ in Manila and affiliated with All Asia Customer Services Holdings Ltd., an investment holding company that owns the controlling equity interest in Paxys. He has been connected with the Group since 1983. He is also a director of Pacific Online Systems Corporation, a company listed with the Philippine Stock Exchange. He graduated with a BSC degree, major in Accounting, from De La Salle University. He attended the Advanced Management Program (AMP) at the Harvard Business School. He is a Certified Public Accountant.

**Mr. Roger Leo A. Cariño** has been a Director of the Company since December 30, 2003. He is currently the Company's Treasurer, which he also held from 2004 to 2006 and 2009. He is concurrently a Director of UT Global Services Limited, a privately held investment company with an RHQ in Manila and affiliated with All Asia Customer Services Holdings Ltd. He has been connected with the Group since 1990. He graduated with a BSC degree, major in Accountancy, from Ateneo de Naga University and attended the MBA Program at Murdoch University and the Strategic Business Economics program at the University of Asia and the Pacific. He is a Certified Public Accountant.

**Mr. Christopher B. Maldia** has been a Director of the Company since December 2003. He graduated with a Bachelor of Laws degree from the Ateneo de Manila University. He also has a Master of Laws in International Legal Studies from New York University School of Law. He is a member of the Philippine Bar and the New York Bar.

**Mr. Lim Ghee Keong** was appointed Director of the Company on June 3, 2005. He has more than 20 years of experience in treasury and credit management. Prior to joining the Usaha Tegas Sdn Bhd (UTSB) Group in 1995, he was attached to General Electric Capital Corporation in the US and the former Ban Hin Lee Bank in Malaysia. He is currently the Chief Operating Officer of UTSB and serves on the Boards of several other companies in which UTSB Group has interests, such as Maxis Berhad (listed on Bursa Malaysia Securities Berhad), Astro Malaysia Holdings Berhad (listed on Bursa Malaysia Securities Berhad) in which he is an alternate director and Bond Pricing Agency Malaysia Sdn Bhd, a bond pricing agency registered with the Securities Commission Malaysia. He is also a director of Yu Cai Foundation. He holds a Bachelor of Business Administration degree, majoring in Finance, from the University of Hawaii at Manoa, USA.

**Mr. Roberto A. Atendido** has been a Director of the Corporation since October 1, 2004. He is currently the Executive Vice Chairman of Asian Alliance Investment Corp. and President/Director of Asian Alliance Holdings and Development Corp. He is currently a member of the board of the following companies: Philippine Business Bank, Picop Resources Corporation, Sinag Energy Philippines, Pharmarex Corporation, and Macay Holdings Inc. He holds a Masters Degree in Business Management from the Asian Institute of Management.

**Mr. George Y. SyCip** has been a Director of the Company since October 1, 2004. He advises a variety of companies in their cross-border endeavors between the US/Europe and Asia and serves on the corporate Boards of Alliance Select Foods International Inc., Asian Alliance Investment Corp., Bank of the Orient in San Francisco, Beneficial Life Insurance Company and MacroAsia Corporation. He is also a Trustee or Director of the International Institute for Rural Reconstruction, Give2Asia, Global Heritage Fund and the California Southeast Asia Business Council. He holds a Masters Degree in Business Administration from Harvard Business School and a Bachelors degree in International Relations/Economics from Stanford University.

**Mr. Jose Antonio A. Lichauco** is concurrently the President of Asian Alliance Investment Corp., specializing in Investment Banking and Corporate Finance. He is also concurrently a Director of Automated Technology (Philippines), Inc. where he was previously Senior Vice-President and Chief Financial Officer. He also held positions at Insular Investment and Trust Corporation and at SGV & Co. He obtained his Masters Degree in Business Administration from Columbia University in New York, USA in 1989.

**Mr. Sivam Kandavanam** is concurrently a Director of Astro Holdings Sdn Bhd and MAI Sdn Berhad and Measat Global Networks Sdn Bhd. He is an associate of the Institute of Chartered Accountants in England and Wales, and a Chartered Accountant of Malaysian Institute of Accountants and has over 25 years working experience in financial services. He is currently the Chief Financial Officer – Private Assets & Trusts of Usaha Tegas Sdn Bhd. He is also the Treasurer of Malaysian Community & Education Foundation. Prior to joining Usaha Tegas, he was attached to Maika Holdings Berhad and KTM Distribution Sdn Bhd.

**Mr. Mark David P. Martinez** joined the Company in October 2009 and was elected as director in August 2012. He is concurrently the Company's General Counsel, Corporate Secretary and Corporate Information Officer. Prior to joining the Company, he worked as an associate attorney at Angara Abello Concepcion Regala & Cruz (ACCRALAW) for three (3) years. Mark is a member of the Philippine Bar and a Certified Public Accountant. He obtained his Bachelor of Laws degree from the San Beda College of Law, Mendiola, Manila in 2006.

#### Attendance

The record of attendance of the Company's directors during the board meetings held for the year 2014 meets the SEC's requirements of more than 50% attendance as indicated below:

Name of Directors	Date of Board Meeting						
	Mar. 11	May 14	Aug. 8	Aug. 15	Nov. 7	Dec. 5	Dec. 18
Tarcisio M. Medalla	✓	✓	✓	✓	✓	✓	✓
Roger Leo A. Cariño	A	✓	✓	✓	✓	✓	✓
Roberto A. Atendido	✓	A	✓	A	✓	A	✓
Christopher B. Maldia	✓	✓	✓	✓	✓	✓	✓
Jose Antonio A. Lichauco	✓	✓	✓	✓	✓	✓	A
Lim Ghee Keong	✓	✓	✓	✓	✓	✓	✓
Sivam Kandavanam	✓	✓	✓	✓	✓	A	✓
George Y. Sycip	✓	✓	✓	A	A	A	✓
Mark David P. Martinez	✓	✓	✓	✓	✓	✓	✓

#### Legend:

✓ - Present  
A - Absent

### **Directorships in Other Reporting Companies**

The following are directorships held by Directors and Executive Officers in other reporting companies during the last five years:

#### ***Tarcisio M. Medalla***

Name of Corporation	Position	Period
Pacific Online Systems Corporation	Director	2007 to present

#### ***Roberto A. Atendido***

Name of Corporation	Position	Period
Asian Alliance Investment Corp	Executive Vice Chairman/ Director	1996 to present
Asian Alliance Holdings & Development Corp.	President/ Director	1996 to present
GEM Communications & Holding Corp.	Director	2000 to present
Paper Industries Corp. of the Phils.	Director	2006 to present
Sinag Energy Philippines, Inc.	Vice Chairman/ Director/ Shareholder	2008 to present
Myka Advisory & Consultancy Services, Inc.	President/ Chairman/ Shareholder	2010 to present
Pharmarex, Inc.	Director	2012 to present
Macay Holdings, Inc.	Director	2013 to present
Philippine Business Bank	Director	2006 to present

#### ***George Y. Sycip***

Name of Corporation	Position	Period
MacroAsia Corporation	Director	1996 to present
Alliance Select Foods International, Inc.	Chairman and Director	2009 to present

### **Nomination of Regular Directors**

All the incumbent directors shall be nominated for re-election.

### **Independent Directors/Nomination Committee**

In compliance with SEC Memorandum Circular No. 16, series of 2002 (now SRC Rule 38), which provides for the guidelines on the nomination and election of independent directors, a Nomination Committee has been created with the following as members:

1. Mr. Tarcisio M. Medalla (Chairman)
2. Mr. George Y. Sycip (Independent Director)
3. Mr. Jose Antonio A. Lichauco (Independent Director)
4. Mr. Roger A. Cariño (non-voting)

The Nomination Committee pre-screened in accordance with the criteria prescribed under SRC Rule 38 and the Company's Code of Corporate Governance, the nominations made by Mr. Tarcisio M. Medalla of the following persons as independent director:

- 1) George Y. Sycip (incumbent)
- 2) Jose Antonio A. Lichauco (incumbent)

The foregoing nominees are not related, whether by affinity or consanguinity, to the persons that nominated them.

### **Significant Employees**

All the employees are considered important assets of the Company who collectively make significant contributions to the Company.

#### *Significant employees of Paxys Inc. as of December 31, 2014:*

**Tarcisio M. Medalla – Chairman and President** has been a Director and President of the Company since December 30, 2003. He is concurrently a Director of UT Global Services Limited, a privately held investment company with an RHQ in Manila and affiliated with All Asia Customer Services Holdings Ltd., an investment holding company that owns the controlling equity interest in Paxys. He has been connected with the Group since 1983. He is also a director of Pacific Online Systems Corporation, a company listed with the Philippine Stock Exchange. He graduated with a BSC degree, major in Accounting, from De La Salle University. He attended the Advanced Management Program (AMP) at the Harvard Business School. He is a Certified Public Accountant.

**Mark David P. Martinez – General Counsel and Corporate Secretary**, joined the Company in October 2009 and was elected as director in August 2012. He is concurrently the Company's Corporate Counsel, Corporate Secretary and Corporate Information Officer. Prior to joining the Company, he worked as an associate attorney at Angara Abello Concepcion Regala & Cruz (ACCRALAW) for three (3) years. Mark is a member of the Philippine Bar and a Certified Public Accountant. He obtained his Bachelor of Laws degree from the San Beda College of Law, Mendiola, Manila in 2006.

### **Family Relationships**

None of the directors and executive officers is related to each other by affinity or consanguinity.

### **Involvement of Directors and Executive Officers in Certain Legal Proceedings**

None of the directors and executive officers was involved during the past five years and as of date of this report in any bankruptcy proceeding. Neither have they been convicted by final judgment in any criminal proceeding or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court or administrative body to have violated a securities or commodities law.

### **Certain Relationships and Related Transactions**

There has been no transaction during the last two years, nor is any transaction presently proposed, to which the Company was or is to be a party in which any director or executive officer of the Company, or nominee for election as a director, or owner of more than 10% of the Company's voting securities, or voting trust holder of 10% or more of any class of the Company's securities, or any member of the immediate family of any of the foregoing persons had or is to have a direct or indirect material interest. In the ordinary and regular course of business, the Company had or may have transactions with other companies in which some of the foregoing persons may have an interest.

## Compensation of Directors and Executive Officers

The aggregate compensation paid or incurred during the last two fiscal years and estimated to be paid in the ensuing fiscal year to the executive officers and directors of the Company are as follows:

### Summary Compensation Table

Chairman & President and Most Highly Compensated Officers*	Year	Compensation and other benefits	Stock Options	Per Diem	Total
<i>(in Millions)</i>					
Tarcisio M. Medalla Chairman and President					
Mark David P. Martinez Corporate Secretary					
Above named officers and all other directors unnamed as a group	Actual 2014	₱12.0	₱-	₱1.2	₱13.2
	Actual 2013	19.4	-	1.16	21.0
	Actual 2012	114.1	-	1.44	115.5
	2015 Projected	12.0	-	1.1	13.1

*\*The Company has a flat organizational structure. There are no other highly compensated officers other than above named officers.*

### Employment Contracts and Termination of Employment and Change-in-Control Arrangements.

There are no agreements between the registrant and its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the law.

### Warrants and Options Outstanding: Repricing

Not applicable. The Company has no outstanding warrants and options.

## **Independent Public Accountants**

- a) The audit committee<sup>1</sup> recommends to the Board of Directors the appointment of the external auditor and the fixing of the audit fees. The Board of Directors and stockholders approve the appointment of the external auditor.
- b) Reyes Tacandong & Co. has been appointed as the new external auditor for the taxable year 2014. Representatives of Reyes Tacandong & Co. for the current year and for the most recently completed fiscal year are expected to be present at the Annual Stockholders' Meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions. Pursuant to the general requirements of SRC Rule 68 Par 3(b)(iv) "Compliance with the Five (5) Year Rotation of External Auditor", Ms. Haydee M. Reyes is eligible as Partner-in-Charge for 2014 audit.
- c) The Company's previous external auditor, Sycip, Gorres, Velayo & Co. (SGV & Co.) has served as external auditor for more than five (5) years and the change was in line with the corporate governance policies of the Company. The consolidated financial statements of the Company for the years 2013 and 2012 were audited by SGV & Co. (member firm of EY Global).
- d) There are no disagreements with our independent auditors on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure.
- e) The consolidated fees billed for the audit of the Company's annual financial statements amounted to ₱1.0 million, ₱0.95 million and ₱1.9 million in 2014, 2013, and 2012 respectively.
- f) There are no professional services rendered by the external auditor for tax accounting, compliance, advice, planning and any other form of tax services for the last two fiscal years. There is no other assurance and related services rendered by the external auditor. There are no other services provided by the external auditor other than the services reported above.

## **PART III: FINANCIAL AND OTHER INFORMATION**

A copy of the Company's consolidated financial statements and a discussion by Management of its operations is contained in the accompanying Management Report.

## **PART IV: OTHER MATTERS**

### **Action with Respect to Reports:**

The Management Report, as set forth in the Annual Report, and the Minutes of the previous annual stockholders' meeting will be submitted for stockholder's approval.

Approval of the Annual Report constitutes a ratification of the Company's performance during the previous fiscal year as contained in the Annual Report.

Approval of the Minutes constitutes a ratification of the accuracy and faithfulness of the Minutes to the events that transpired during the meeting. This does not constitute a second approval of the same matters taken up at the annual stockholders' meeting, which was approved.

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<sup>1</sup> Audit Committee members are: 1) Jose Antonio Lichauco – Chairman; 2) George Y. Sycip; 3) Roberto A. Atendido; and 4) Roger Leo A. Cariño.

## Amendment of Charter, By-Laws or Other Documents

The Board approved the amendment to the Company's Articles of Incorporation in compliance with SEC Memorandum Circular No. 6, Series of 2014, which required registrant-corporations to state in their Articles of Incorporation the specific address of their principal office, including, if feasible, the street number, street name, barangay, city of municipality. The stockholders approved the amendment at the Annual Stockholders' Meeting on 5 December 2014.

## Other Proposed Actions

- A. Approval of the minutes of the 2014 Annual Stockholders' Meeting.
- B. Ratification of previous corporate acts

Among the major corporate acts for ratification by the stockholders during the annual stockholders' meeting are the following which were previously disclosed in the following Current Report (SEC Form 17-C):

Date Filed	Items Reported
22 October 2014	The Company submitted the Certificates of Compliance for all the Directors and Officers of Paxys, Inc. in compliance with the SEC Memorandum Circular No. 20 Series of 2013.
7 November 2014	The Company submitted the certified list of Stockholders of Paxys, Inc. as of 3 November 2014, the record date of our Annual Stockholders' Meeting, which is scheduled on 3 December 2015.
9 December 2014	The Company advised the Exchange of the highlights and results of the Annual Stockholders' Meeting held on 5 December 2014.
19 December 2014	The Company submitted a copy of Ms. Ana Maria A. Katigbak's Certificate of Attendance issued by Risk, Opportunities, Assessment and Management Inc. for the Corporate Governance seminar she attended on 18 February 2014.
22 December 2014	The Company submitted the Certificate of Filing of Amended Articles of Incorporation of Paxys, Inc.
29 December 2014	The Company submitted the Certificates of Independent Directors executed by Jose Antonio A. Lichauco and George Y. Sycip
7 January 2015	The Company informed the Exchange that Paxys Inc. has appointed Reyes Tacandong & Co. as external auditor for the taxable year 2014.
31 March 2015	The Company submitted the 2013 Corporate Governance Guidelines for Listed Companies.
24 April 2015	The Company submitted a copy of Ms. Ana Maria A. Katigbak's Certificate of Attendance issued by Risk, Opportunities, Assessment and Management Inc. for the Corporate Governance she attended on 21 April 2015.
7 May 2015	The Company informed the Exchange that the annual meeting of the stockholders of Paxys, Inc. for the year 2015, which is scheduled to be

Date Filed	Items Reported
	held on any day in May, has been postponed to a later date. The purpose of the postponement is to provide the Board of Directors and management of Paxys with more time to make a decision on the utilization of its funds.
7 May 2015	The Company submitted a copy of Mr. Mark David P. Martinez' Certificate of Completion issued by the Securities and Exchange Commission for the seminar he attended on SEC Corporate Governance Workshop on the ASEAN Corporate Governance Scorecard for Publicly-Listed Companies on 23 April 2015.
12 August 2015	The Company informed the Exchange that the scheduled annual meeting of the stockholders of Paxys Inc. is on 3 December 2015 at the Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City.
14 October 2015	The Company informed the Exchange of its record date and submitted a copy of the notice for the annual meeting.

- C. Election of directors
- D. Appointment of External Auditors

**Voting Procedure:**

For the election of directors, the nine (9) nominees receiving the most number of votes will be elected to the Board of Directors. Cumulative voting will be applied.

For all other matters to be taken up, majority vote of the outstanding capital stock present or represented at the meeting where a quorum exists will be sufficient. Voting shall be done *viva voce* or by raising of hands and the votes cast for or against the matter submitted shall be tallied by the Corporate Secretary in case of division of the house.



PAXYS, INC.

MANAGEMENT REPORT  
Pursuant to RSA Rule 20(B)

For the 2015 Annual Stockholders' Meeting

A. Audited Financial Statements for Fiscal Year Ended December 31, 2014

Please refer to the accompanying audited consolidated financial statements for 2014.

B. Management's Discussion and Analysis of Financial Condition and Results of Operations

**Year Ended December 31, 2014 Compared with Year Ended December 31, 2013**

*The following discussion should be read in conjunction with the accompanying audited consolidated financial statements and notes (presented as Exhibit "C") thereto and is qualified in its entirety by reference thereto.*

Consolidated Financial and Operational Highlights  
(In Thousand Pesos unless otherwise stated)

For the full year ended 31 December	2014	2013	Y14 vs Y13
Profit & Loss Data:			
Service Income	₱150,509	₱158,295	(5%)
Gross Profit	17,982	24,581	(27%)
EBITDA <sup>2</sup>	(46,329)	(99,721)	54%
Loss from operations	(56,061)	(113,480)	51%
Net Income attributable to equity holders	(20,849)	(73,868)	72%

Service income in 2014 includes revenue from data conversion of SWA and call center revenue of PGS. Revenue and net results of joint ventures for both years are excluded and presented as one line item below the operating line.

Service income has decreased by 5% or ₱7.7 million versus prior year mainly due to the termination of revenue contracts of PGS accounts in April 2014. This resulted in a ₱17.2 million decrease in the Group's revenue but was partially recovered by the growing business in SWA which revenue has increased by ₱9.5 million as compared to prior year.

The Gross Profit decreased by 27% in 2014 principally due to the increase in Cost of Sales for outside services contracted for the additional account of SWA.

The overall Net Loss has decreased from ₱73.9 million in 2013 to ₱20.8 million in 2014 primarily due to lower Operating Expenses of the Group and the stronger Peso performance for its USD-denominated funds as, in 2013, the Group has converted most of its AUD funds to USD. As a result of the conversion of the Group's fund from AUD to USD, the net foreign exchange loss has significantly dropped by 96% or ₱78.8 million. Meanwhile, the Opex has also decreased by 22% or ₱84.7 million in 2014 from ₱109.1 million in 2013.

<sup>2</sup> EBITDA is defined as Earnings Before Interest, Income Taxes, Depreciation and Amortization.

**Scopeworks Asia, Inc.**

The following table shows key performance indicators of Scopeworks:  
(In Php Thousands)

<b>For the full year ended 31 December</b>	<b>2014</b>	<b>2013</b>	<b>Y14 vs Y13</b>
Profit & Loss Data:			
Service Income	<b>₱145,969</b>	<b>₱136,517</b>	7%
Gross Profit	<b>18,321</b>	<b>12,563</b>	46%
EBITDA	<b>5,938</b>	<b>11,304</b>	(47%)
Income from operations	<b>3,725</b>	<b>5,651</b>	(34%)
Net Income	<b>3,109</b>	<b>5,533</b>	(44%)

In spite of the 46% or ₱5.8 million improvement in the Gross Profit, the overall Net Income decreased by 44% or ₱2.4 million as compared to prior year mainly due to increased personnel costs for support employees and one-off expenditures to improve facilities and equipment of SWA.

**Paxys Global Services, Inc. (PGS)**

The following table shows key performance indicators of PGS:  
(In Php Thousands)

<b>For the full year ended 31 December</b>	<b>2014</b>	<b>2013</b>	<b>Y14 vs Y13</b>
Profit & Loss Data:			
Service Income	<b>₱4,540</b>	<b>₱21,778</b>	(79%)
Gross Profit	<b>1,627</b>	<b>12,017</b>	(86%)
EBITDA	<b>2,293</b>	<b>9,948</b>	(77%)
Income from operations	<b>(518)</b>	<b>8,494</b>	(106%)
Net Income	<b>(562)</b>	<b>8,510</b>	(107%)

The revenue contracts of PGS were terminated in April 2014 which resulted to an overall drop in the financial performance of the company. As of December 31, 2014, PGS resulted to a net loss of ₱562k or a 107% decrease as compared to prior year.

## FINANCIAL CONDITION

*The following discussion should be read in conjunction with the accompanying audited consolidated financial statements and notes (presented as Exhibit "C") thereto and is qualified in its entirety by reference thereto.*

### Consolidated Financial and Operational Highlights (in Thousand Pesos unless otherwise stated)

As of 31 December	2014	2013	Y14 vs Y13
Balance Sheet Data:			
<u>Continuing:</u>			
Total Current Assets	₱3,478,780	₱4,554,276	(24%)
Total Noncurrent Assets	19,266	24,030	(20%)
Total Assets	3,498,046	4,578,306	(24%)
Total Current Liabilities	48,380	57,223	(16%)
Total Noncurrent Liabilities	11,122	7,839	42%
Total Equity	3,438,544	4,513,244	(24%)

The significant changes in the balance sheet items from December 31, 2014 to December 31, 2013 are as follows:

- The Group's total assets decreased by 24% or ₱1,080 million mainly due the purchase of common shares through a tender offer made by Paxys Inc.'s wholly-owned subsidiary, Paxys NV, in 2014. The total amount of consideration paid amounted to ₱1,149.9 million.
- The purchase of the common shares amounting to ₱1,149.9 million was presented as a reduction in the total paid-up capital, thus, the net decrease in the Total Equity of the Group.
- Non-current liabilities increased by 42% or ₱3.3 million principally due to adjustments in the retirement liability of the Group. Although there are no substantial increase in the headcount and salaries of the Group, the standard discount rate used in the latest actuarial valuation obtained has decreased, from 6.38% in 2013 to 4.49% in 2014, thus the inverse effect on the Present Value Amount of the Group's retirement liability

## LIQUIDITY AND CAPITAL RESOURCES

The following discussion should be read in conjunction with the accompanying audited consolidated financial statements and notes (presented as Exhibit "C") thereto and is qualified in its entirety by reference thereto.

Consolidated Financial and Operational Highlights  
(in Thousand Pesos unless otherwise stated)

(In Thousand Pesos unless otherwise stated)

For the full year ended 31 December	2014	2013	Y14 vs Y13
Net Cash used in Operating Activities	₱145,696	₱71,202	105%
Net Cash provided by Investing Activities	(1,848)	(36,361)	95%
Net Cash used in Financing Activities	(1,073,226)	-	(100%)
<b>Net decrease in cash and cash equivalents</b>	<b>(929,378)</b>	<b>34,841</b>	<b>(2767%)</b>

The net decrease in cash and cash equivalents in 2014 is mainly due to the purchase of common shares through a tender offer made by the Paxys N.V. in 2014. The total consideration paid amounted to ₱1,149.9 million.

The Company's management believes that the current level of cash generated from operations and the borrowing capability are sufficient to meet the Company's immediate future cash needs. The Company does not anticipate any liquidity problems that may arise from its operating activities in the near future.

The following are the major financial ratios of the Company for the year ended December 31, 2014 and year ended December 31, 2013:

As of and for the full year ended 31 December	2014	2013	Y14 vs Y13
Financial Ratios:			
Current Ratio*	71.9:1	79.6:1	(10%)
Debt to Equity Ratio**	0.02:1	0.01:1	(100%)
Return on Equity***	(1%)	(2%)	50%
EBITDA Margin	(31%)	(63%)	51%
Net Income margin	(14%)	(47%)	70%

\* *Current Assets/Current Liabilities*

\*\* *Total Liabilities/Total Stockholders' Equity*

\*\*\* *Net Income/[(Equity end + Equity beg - Net Income)/2]*

## OTHER MATTERS

### a. Subsequent event

None.

### b. Contingencies

As of December 31, 2014, the Company has no material contingencies.

### c. Commitments

There were no material commitments for expansion as of 2014.

- d. There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons during the reporting period.
- e. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Conditions and Results of Operations.
- f. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.
- g. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or an unfavorable impact on net sales or revenue or income from continuing operation.
- h. The causes for any material change from period to period are stated under Management's discussion and analysis section "financial condition".
- i. The effects of seasonality or cyclicity on the operations of the Company's business are not material.
- j. There were no material changes in estimates of amounts reported in interim periods of the current year or changes in estimates of amounts reported in prior financial years.

***Trends, Events, Uncertainties or Contingent Financial Obligation with Material Impact on Liquidity***

The Company does not anticipate having liquidity problem within the next twelve (12) months since it has adequate amount of cash to pay its maturing obligations and to support its working capital requirements.

### Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

The following discussion should be read in conjunction with the accompanying audited consolidated financial statements and notes (presented as Exhibit "C") thereto and is qualified in its entirety by reference thereto.

#### Consolidated Financial and Operational Highlights (In Thousand Pesos unless otherwise stated)

For the full year ended 31 December	2013	2012 (As restated)	Y13 vs Y12
<b>Profit &amp; Loss Data:</b>			
<u>Continuing Operations</u>			
Service Income	<b>₱158,295</b>	₱202,375	(22%)
Gross Profit	<b>24,581</b>	(24,958)	198%
EBITDA <sup>3</sup>	<b>(99,721)</b>	(67,762)	(47%)
Loss from operations	<b>(113,480)</b>	(121,560)	7%
Net Income attributable to equity holders	<b>(73,868)</b>	(73,645)	0%
<u>Discontinuing Operations</u>			
Net Income attributable to equity holders	-	2,448,135	(100%)

Service income in 2013 includes revenue from data transcription of SWA and call center revenue of PGS. Revenue and net results of joint ventures for both years are excluded and presented as one line item below the operating line.

Service income has decreased by 22% or ₱44 million versus prior year due to decline in revenue of SWA by ₱17 million and the termination of lease revenue of Paxys in 2012, the effect of which is ₱17 million. The sale of URSI resulted in a reduction in revenue amounting to ₱8 million. Revenue from its call center segment (PGSI), however, has improved by ₱8 million due to higher billable hours during the first quarter of 2013. The decrease in gross revenue of SWA by 11% or ₱17 million from ₱153 million in 2012 to ₱136 million in 2013 is due to reduction in volume requirement for its data transcription and data conversion business.

Gross profit margin increased to 16% in 2013 from negative 12% in 2012 due to significant decline in direct costs.

#### **Cost of Sales**

Direct costs declined by ₱93 million or 41% from ₱227 million in 2012 to ₱134 million in 2013. Direct costs margin improved to 84% in 2013 versus 112% in 2012. The main cause of decline in direct costs is personnel costs by ₱13 million; premises costs by ₱27 million; depreciation by ₱39 million; and other expenses by ₱10 million.

Personnel costs declined due to decline in manpower requirement as business volume declined in SWA and PGS. Premises costs and depreciation declined due to the full year-effect of pre-termination of lease in Araneta facilities in April 2012. Other expenses decreased mainly due to lower professional fees, lesser travels and representation and repairs and maintenance.

#### **Operating Expenses**

<sup>3</sup> EBITDA is defined as Earnings Before Interest, Income Taxes, Depreciation and Amortization.

Operating expenses decreased by ₱130 million or 54% from ₱242 million to ₱112 million this period due to the effect of restructuring completed in 2012. Other expenses such as travel and representation, insurance expenses, taxes and licenses and other miscellaneous expenses also decreased significantly versus prior year.

EBITDA margin dropped to negative 63% in 2013 from negative 33% in 2012 despite improvements in direct costs and Opex due to the effect of foreign exchange losses on AUD-denominated funds of the Group.

### Scopeworks Asia, Inc.

The following table shows key performance indicators of Scopeworks:

*(In Php Thousands)*

<b>For the full year ended 31 December</b>	<b>2013</b>	<b>2012</b>	<b>Y13 vs Y12</b>
Profit & Loss Data:			
Service Income	<b>₱136,517</b>	<b>₱153,295</b>	(11%)
Gross Profit	<b>12,400</b>	<b>3,216</b>	286%
EBITDA	<b>13,488</b>	<b>(27,324)</b>	149%
Income from operations	<b>7,835</b>	<b>(42,530)</b>	118%
Net Income	<b>7,903</b>	<b>(42,133)</b>	119%

Despite the decline in Revenue, Direct Costs and Opex has decreased significantly due to the cost restructuring and cost improvements made in 2013 and 2012.

Opex margin has decreased by 25 points from 34% in 2012 to 9% in 2013 or decreased by ₱40 million. The main cause of the decline is the decrease in personnel costs as SWA implemented a restructuring which was completed on the last quarter of 2012.

For comparative management reporting, SWA recognized allocated costs from its affiliate, PGS, representing its share in management and overhead costs in 2012 and overhead costs only in 2013.

### Paxys Global Services, Inc. (PGS)

The following table shows key performance indicators of PGS:

For the full year ended 31 December	2013	2012	Y13 vs Y11
Profit & Loss Data:			
Service Income	₱21,778	₱13,655	59%
Gross Profit	9,468	1,057	796%
EBITDA	7,478	(37,260)	120%
Income from operations	5,422	(40,044)	114%
Net Income	5,404	(40,382)	113%

Increase in outbound voice account of PGS and significant decline in operating expenses by ₱38 million or 90% caused positive results for the year compared prior year.

### FINANCIAL CONDITION

*The following discussion should be read in conjunction with the accompanying audited consolidated financial statements and notes (presented as Exhibit "C") thereto and is qualified in its entirety by reference thereto.*

Consolidated Financial and Operational Highlights  
(in Thousand Pesos unless otherwise stated)

As of 31 December	2013	2012 (As restated)	Y12 vs Y11
Balance Sheet Data:			
<u>Continuing:</u>			
Total Current Assets	₱4,554,276	₱4,282,608	6%
Total Noncurrent Assets	24,030	147,486	(84%)
Total Assets	4,578,306	4,430,094	3%
Total Current Liabilities	57,223	108,062	(47%)
Total Noncurrent Liabilities	7,839	7,738	1%
Total Equity	4,513,244	4,314,244	5%

The major changes in the balance sheet items from December 31, 2012 to December 31, 2013 are as follows for continuing operations:

- Cash and cash equivalents increased in 2013 by 5% or ₱207.0 million due to partial realization of escrow fund from sale of Paxys Australia Pty. Ltd. (PAU) amounting to ₱120.0 million, interest earned of ₱43.9 million, proceeds from sale of Stellar Global Solutions Philippines, Inc. and Stellar Philippines (collectively, "Stellar"), net of capital gains tax and other taxes of ₱141.6 million, net foreign exchange and translation gain of ₱112.2 million of and were offset by acquisition of investment in available-for-sale securities of ₱183.3 million, income tax paid of ₱6.8 million, and net cash outflows of joint ventures of ₱20.6 million.



- The decrease in trade and other receivables by 32% or ₱119.0 million is mainly due to realization of escrow fund to cash. Restricted funds are recognized in an escrow account as part of the proceeds from the sale of PAU in June 2012.
- Other current assets increased by 22% or ₱0.9 million due to input vat on purchases net of its related provision for non-recoverability.
- Investment in joint ventures was reduced to nil in 2013 due to the sale of Stellar to the joint venture partner and recognition of additional losses of Simpro Solutions Phils., Inc. (Simpro) and Paxys Global Services Dalian Ltd. (PGS Dalian).
- Property and equipment posted a net decrease of 52% or ₱9.1 million due mainly to depreciation and amortization for the year amounting to ₱10.1 million, net of acquisition of to ₱0.6 million.
- Accounts payable and other current liabilities decreased versus 2012 by 49% amounting to ₱47.8 million due mainly of reversal of long-outstanding accruals of ₱24.6 million, settlement of subscription payable to Stellar due to sale of ₱9.4 million, and settlement of various accruals and payables during the year of ₱13.8 million.

## LIQUIDITY AND CAPITAL RESOURCES

*The following discussion should be read in conjunction with the accompanying audited consolidated financial statements and notes (presented as Exhibit "C") thereto and is qualified in its entirety by reference thereto.*

Consolidated Financial and Operational Highlights  
(in Thousand Pesos unless otherwise stated)

<b>For the full year ended 31 December</b>	<b>2013</b>	<b>2012 (As restated)</b>	<b>Y13 vs Y12</b>
Net Cash used in Operating Activities	<b>₱71,202</b>	<b>(₱258,752)</b>	128%
Net Cash provided by Investing Activities	<b>(36,361)</b>	3,734,834	(101%)
<b>Net increase in cash and cash equivalents</b>	<b>34,841</b>	3,476,082	(99.0%)

The increase in cash and cash equivalents in 2013 due to better cash flows from operations. Net cash used in investing activities includes the following:

- Proceeds from divestment of Stellar, net of capital gains tax paid and other taxes, of ₱141.6 million;
- Investment in unit investment trust fund amounting to ₱183.3 million;
- Additional investment in joint ventures amounting to ₱13.1 million

The Company's management believes that the current level of cash generated from operations and the borrowing capability are sufficient to meet the Company's immediate future cash needs. The Company does not anticipate any liquidity problems that may arise from its operating activities in the near future.

The following are the major financial ratios of the Company for the year ended December 31, 2013 and year ended December 31, 2012:

As of and for the full year ended 31 December	2013	2012 (As restated)	Y13 vs Y12
Financial Ratios:			
Current Ratio*	79.6:1	39.6:1	101%
Debt to Equity Ratio**	0.01:99.9	0.03:99.7	46%
Return on Equity***	(2%)	(4%)	53%
EBITDA Margin~	(63%)	(33%)	(88%)
Net Income margin~	(47%)	(37%)	(28%)

~Excludes 2012 income from discontinuing operations.

\* Current Assets/Current Liabilities

\*\* Total Liabilities/Total Stockholders' Equity

\*\*\* Net Income/[(Equity end + Equity beg - Net Income)/2]

## OTHER MATTERS

### a. Subsequent event

None.

### b. Contingencies

As of December 31, 2013, the Company has no material contingencies.

### c. Commitments

There were no material commitments for expansion as of 2013.

- d. There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons during the reporting period.
- e. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Conditions and Results of Operations.
- f. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.
- g. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or an unfavorable impact on net sales or revenue or income from continuing operation.
- h. The causes for any material change from period to period are stated under Management's discussion and analysis section "financial condition".
- i. The effects of seasonality or cyclicity on the operations of the Company's business are not material.
- j. There were no material changes in estimates of amounts reported in interim periods of the current year or changes in estimates of amounts reported in prior financial years.

***Trends, Events, Uncertainties or Contingent Financial Obligation with Material Impact on Liquidity***

The Company does not anticipate having liquidity problem within the next twelve (12) months since it has adequate amount of cash to pay its maturing obligations and to support its working capital requirements.

**Year Ended December 31, 2012 Compared with Year Ended December 31, 2011**

*The following discussion should be read in conjunction with the accompanying audited consolidated financial statements and notes (presented as Exhibit "C") thereto and is qualified in its entirety by reference thereto.*

**Consolidated Financial and Operational Highlights**  
(In Thousand Pesos unless stated)

<b>For the full year ended 31 December</b>	<b>2012</b>	<b>2011 (As restated)</b>	<b>% change Y12 vs Y11</b>
<b>Profit &amp; Loss Data:</b>			
<u>Continuing Operations</u>			
Service Income	<b>₱202,375</b>	₱425,633	(52%)
Gross Profit	<b>(24,958)</b>	28,584	(187%)
EBITDA	<b>(69,984)</b>	(116,298)	40%
Loss from operations*	<b>(123,782)</b>	(173,869)	29%
Net Income attributable to equity holders	<b>(75,867)</b>	(170,027)	55%
<u>Discontinuing Operations</u>			
Net Income attributable to equity holders	<b>2,448,135</b>	298,505	720%

*\*The Company's 50% share in net earnings of Stellar, PGS Dalian and Simpro, which are joint ventures, is presented in one line item as Equity in Net Earnings of Joint Ventures and included under Loss from Operations above. The 2011 results of operations is restated to be comparative versus 2012.*

As a result of the change in accounting treatment of Investment in Joint Ventures, the consolidated comparative Service income includes revenue from data transcription of SWA; call center revenue of PGS; rental revenue of Paxys and sales of software/hardware and IT services of UR Solutions, Inc. (URSI). Revenue and net results of joint ventures are excluded and presented as one line item below the operating line.

Service income from continuing operations has decreased by 52% or ₱223 million due mainly to SWA's decline in business of its data transcription business, pre-termination of the Company's sub-lease of office premises to a joint venture and divestment of its software and IT consulting development business segment in the third quarter of 2011.

Gross revenue from data transcription business decreased by 37% or ₱89 million from ₱242 million in 2011 to ₱153 million in 2012 due to reduction in volume requirement of the client.

The sublease agreement between Paxys and Stellar was pre-terminated in April 2012. This resulted to a reduction in revenue by 81% or ₱97 million from ₱120 million in 2011 to ₱23 million in 2012.

In 2011, consolidated service income includes IT-consulting and software development revenue from Global Ideology Corporation (GIC) amounting to ₱34 million. GIC was sold in August 2011.

Gross profit margin is down to negative 12% in 2012 from positive 7% in 2011. This is mainly due to decline in revenue net of increase in cost of sales margin from 93% in 2011 to 112% in 2012.

#### ***Cost of Sales***

Direct costs declined by ₱170 million or 75% from ₱397 million in 2011 to ₱227 million in 2012. However, direct costs margin to total revenue increased to 112% in 2012 versus 93% in 2011. The main cause of decline in direct costs is personnel costs by ₱86 million; premises costs by ₱59 million; licenses by ₱8 million; communication expenses by ₱4 million and other expenses by ₱9 million.

Personnel costs declined due to decline in manpower requirement as volume handled decline in SWA and PGS. Premises costs declined due to pre-termination of lease in Araneta facilities in April 2012. Licenses costs decreased due to sale of GIC in August 2011. Other expenses decreased mainly due to lower professional fees, lesser travels and representation and repairs and maintenance.

#### ***Operating Expenses***

Operating expenses decreased by ₱30 million or 11% from ₱266 million in 2011 to ₱236 million in 2012. However, Opex percentage to total revenue increased to 116% in 2012 versus 62% in 2011. Opex mainly decreased due to net impairment in GIC and WNS Philippines, Inc. (WNS) amounting to ₱15 million, termination of lease of one office site of SWA causing the decline in premises costs by ₱5 million, and decrease in personnel costs due to restructuring that occurred during mid-year of 2011.

EBITDA margin drops to negative 35% in 2012 from negative 27% in 2011 despite improvement in EBITDA by ₱46 million from negative ₱116 million in 2011 to negative ₱70 million in 2012. Improvements in direct costs and Opex and favorable foreign exchange gains net of share in net loss on joint ventures are lower than the drop in revenue versus prior year.

Net loss is lower in 2012 due to lower direct costs and Opex and the ₱191 million gain on foreign exchange for cash and cash equivalents.

The following are the highlights of the performance of the individual business entities:

#### **ScopeWorks Asia, Inc.**

The following table shows key performance indicators of Scopeworks:

*(In Php Thousands)*

<b>For the full year ended 31 December</b>	<b>2012</b>	<b>2011</b>	<b>% of Change Y12 vs Y11</b>
Profit & Loss Data:			
Service Income	<b>₱153,295</b>	₱242,174	(37%)
Gross Profit	<b>3,216</b>	15,300	(79%)
EBITDA	<b>(27,324)</b>	(24,615)	(11%)
Income from operations	<b>(42,530)</b>	(41,210)	(3%)
Net Income	<b>(42,133)</b>	(47,227)	11%

Decline in revenue resulted from lower billable hours from SWA's main program. Volume requirement by the client was cut almost half versus 2011. Gross profit margin declined by 4 points from 6% in 2011 to 2% in 2012. Direct costs was managed to reduce personnel costs and premises costs versus 2011 by 40% and 23%, respectively. In Q1 2012, SWA did not renew the lease of one floor of its Makati site.

Opex margin to total revenue increased by 9 points from 25% in 2011 to 34% in 2012 though declined in amount by ₱8 million. The main cause of the decline is the decrease in personnel costs as SWA implemented a restructuring during the mid-year of 2011.

For comparative management reporting of 2012 and 2011, SWA recognized allocated costs from its affiliate, PGS, representing its share in management and overhead costs.

### **Stellar Global Solutions Philippines, Inc and Subsidiary**

The following table shows key performance indicators of Stellar at 100%:

*(In Php Thousands)*

<b>For the full year ended 31 December</b>	<b>2012</b>	<b>2011</b>	<b>% of Change Y12 vs Y11</b>
Profit & Loss Data:			
Service Income	<b>₱664,878</b>	₱955,003	(30%)
Gross Profit	<b>168,744</b>	261,130	(35%)
EBITDA	<b>8,798</b>	109,414	(92%)
Income from operations	<b>(61,429)</b>	88,316	(170%)
Net Income	<b>(70,597)</b>	88,141	(180%)

Stellar's service income from continuing operations decreased by 30% or ₱290 million due to the following:

- Stellar's revenue from its relay services decreased by about ₱170 million due to decrease in call volume and reduction in billing rate.
- Stellar lost an account in 2012 which posted ₱130 million revenue in 2011.
- The directory assistance segment decreased in revenue by about ₱43 million as call volume trend from these types of accounts decline.

Gross profit margin decreased by 2 points from 27% in 2011 to 25% in 2012. Direct costs decreased by ₱198 million mainly due to decrease in personnel costs and facilities costs. With the reduction in call volume, a number of employees have been reduced. In 2012, Stellar offered a retirement program for the relay service account. The average 2011 headcount is 1,597 while 1,282 in 2012. Stellar migrated the operations in its new site in 4<sup>th</sup> quarter of 2011, which is completed in the first quarter of 2012. Facilities cost on the older site is higher because it includes complete utilities and other general administration costs.

Opex margin increased by 18 points from 18% in 2011 to 36% in 2012 mainly due to increase in depreciation and amortization. Stellar incurred leasehold improvements cost which drive the depreciation expense to be higher in 2012.

As a result of revenue declining and increase in Opex, EBITDA margin and Net income margin dropped to 1% and negative 11% in 2012 from 11% and 9% in 2011, respectively.

Paxys sold its equity interests in Stellar in July 2013.

### Paxys Global Services, Inc. (PGS)

The following table shows key performance indicators of PGS:

<b>For the full year ended 31 December</b>	<b>2012</b>	<b>2011</b>	<b>% of Change Y12 vs Y11</b>
Profit & Loss Data:			
Service Income	₱13,655	₱15,156	(10%)
Gross Profit	1,057	2,718	(61%)
EBITDA	(37,260)	(12,162)	(206%)
Income from operations	(40,044)	(12,767)	(214%)
Net Income	(40,382)	(12,752)	(217%)

Revenue declined due to lower sales volume of SingTel, the outbound voice account of PGS versus 2011. Income from operations and EBITDA are much lower in 2012 versus 2011 due to commission income of PGS from Paxys' associate in 2011 and higher Opex in 2012.

### **FINANCIAL CONDITION**

*The following discussion should be read in conjunction with the accompanying audited consolidated financial statements and notes (presented as Exhibit "C") thereto and is qualified in its entirety by reference thereto.*

Consolidated Financial and Operational Highlights  
(in Thousand Pesos unless stated)

<b>As of 31 December</b>	<b>2012</b>	<b>2011 (As restated)</b>	<b>% of Change Y12 vs Y11</b>
Balance Sheet Data:			
<u>Continuing:</u>			
Total Current Assets	₱4,288,987	₱635,276	575%
Total Noncurrent Assets	141,248	238,265	(41%)
Total Assets	4,430,235	873,541	407%
Total Current Liabilities	108,203	100,113	8%
Total Noncurrent Liabilities	3,867	4,427	(13%)
Total Equity	4,318,165	2,061,417	109%
<u>Discontinuing:</u>			
Assets held for sale	-	3,824,468	(100%)
Liabilities held for sale	-	2,307,761	(100%)
Reserves held for sale	-	224,291	(100%)

*\*2011 is restated due to change in consolidation process of Investment in joint ventures from proportionate consolidation to equity accounting.*

The major changes in the balance sheet items from December 31, 2012 to December 31, 2011 are as follows for continuing operations:

- Proceeds from sale of PAU causes the significant net increase in Cash and cash equivalents versus 2011 by 834% or ₱3,482.3 million.
- Trade and other receivables decreased by 38% or ₱52.7 million. Trade accounts decreased by ₱30.0 million or 30% due to lower services handled. In 2012, additional ₱10.9 million of advances to affiliates and other receivables are provided with allowance for non-collectability.
- Other current assets increased by 276% or ₱222.7 million. Restricted funds are recognized in an escrow account as part of the proceeds from the sale of PAU and ACS in June 2012 and October 2011, respectively. As of December 31, 2012 and 2011, the balance of escrow fund is ₱298.8 million and ₱50.2 million, respectively. The escrow fund from the sale of ACS was collected in January 2012.
- Investment in joint ventures was reduced by ₱45.8 million in 2012, which is the amount of Paxys' 50% share in net loss of joint ventures.
- Property and equipment posted a net decrease of 72% or ₱46.2 million due mainly to depreciation and amortization for the year amounting to ₱49.6 million.
- Accounts payable and other current liabilities has a minimal increase versus 2011 by 5% amounting to ₱4.9 million
- Assets, liabilities and reserves held for sale is reduced to nil in 2012 as the sale of PAU is completed in June 2012.
- Non-controlling interests of negative ₱5.4 million in 2011 pertains to minority interests in URSI. The balance is reduced to nil in 2012 as URSI was sold in October 2012.

## LIQUIDITY AND CAPITAL RESOURCES

*The following discussion should be read in conjunction with the accompanying audited consolidated financial statements and notes (presented as Exhibit "C") thereto and is qualified in its entirety by reference thereto.*

### Consolidated Financial and Operational Highlights (in Thousand Pesos unless stated)

<b>For the full year ended 31 December</b>	<b>2012</b>	<b>2011 (As restated)</b>	<b>% of Change Y12 vs Y11</b>
Net Cash used in Operating Activities	<b>(₱258,752)</b>	(₱1,448,446)	(82%)
Net Cash provided by Investing Activities	<b>3,734,834</b>	78,451	4661%
Net Cash used in Financing Activities	-	(501,456)	100%
<b>Net increase in cash and cash equivalents</b>	<b>3,476,082</b>	(1,871,451)	286%

The significant increase in cash and cash equivalents is due mainly to divestment of PAU. The proceeds from the said divestment amounted to ₱3,739.6 million.

Net cash used in investing activities includes the following:

- a) Proceeds from divestment of Paxys Australia amounting to ₱3,739.6 million;
- b) Acquisition of property and equipment and intangible assets amounting to ₱121.4 million and ₱626 million, respectively.

Net cash used in financing activities in 2011 includes full repayment of short-term bank loan of Paxys amounting to ₱282.4 million

The Company's management believes that the current level of cash generated from operations and the borrowing capability are sufficient to meet the Company's immediate future cash needs. The Company does not anticipate any liquidity problems that may arise from its operating activities in the near future.

The following are the major financial ratios of the Company for the year ended December 31, 2012 and year ended December 31, 2011:

<b>As of and for the full year ended 31 December</b>	<b>2012</b>	<b>2011 As restated</b>	<b>% of Change Y12 vs Y11</b>
Financial Ratios:			
Current Ratio*	<b>39.64:1</b>	<b>1.85:1</b>	2040%
Debt to Equity Ratio**	<b>3:97</b>	<b>51:49</b>	98%
Return on Equity***	<b>(1%)</b>	<b>(2%)</b>	(70%)
EBITDA Margin~	<b>(35%)</b>	<b>(27%)</b>	(27%)
Net Income margin~	<b>(37%)</b>	<b>(40%)</b>	6%

~Excludes 2012 and 2011 income from discontinuing operations.

\* Current Assets/Current Liabilities

\*\* Total Liabilities/Total Stockholders' Equity

\*\*\* Net Income/[(Equity end + Equity beg - Net Income)/2]

## **OTHER MATTERS**

### a. Subsequent event

None.

### b. Contingencies

As of December 31, 2012, the Company has no material contingencies.

### c. Commitments

There were no material commitments for expansion as of 2012.

d. There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons during the reporting period.

e. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Conditions and Results of Operations.

f. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.



- g. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or an unfavorable impact on net sales or revenue or income from continuing operation.
- h. The causes for any material change from period to period are stated under Management's discussion and analysis section "financial condition".
- i. The effects of seasonality or cyclicity on the operations of the Company's business are not material.
- j. There were no material changes in estimates of amounts reported in interim periods of the current year or changes in estimates of amounts reported in prior financial years.

## GENERAL NATURE AND BUSINESS OF THE COMPANY

Paxys, Inc. (“Paxys” or the “Company”) is an investment holding company incorporated in the Philippines and listed on the Philippine Stock Exchange (stock symbol: PAX). In 2004, the Company’s principal shareholder undertook a reverse takeover of Paxys by injecting Advanced Contact Solutions, Inc. (“ACS”) in exchange for a controlling stake in the Company. ACS at that time was a major call center in the Philippines. Effectively, Paxys became the first call center firm to be listed on the Philippine Stock Exchange. Thereafter, Paxys made several other investments in the business processes outsourcing (BPO) industry and other related businesses by means of acquisitions and joint ventures. Due to exigencies of the business, Paxys sold all of its equity interests in ACS in January 2011 and henceforth divested most of its BPO assets. At present, the Company’s operating subsidiaries provide general transcription, proofreading, data conversion, contact center and back office outsourcing services.

Previous investments of Paxys include the following:

- The Company expanded its business and made several acquisitions in Australia through Paxys Australia Pty Ltd (“PAU”). The most significant acquisition was made in April 2006 when PAU acquired SmartSalary Pty Ltd (“SmartSalary”), a salary packaging company based in Australia. In 2009, SmartSalary acquired two major Australian providers of in-house salary packaging software solutions, namely, Melbourne System Group Pty Ltd and Seqoya Pty Ltd. In 2010, PAU incorporated a wholly-owned subsidiary, Smartfleet Management Pty Ltd (“Smartfleet”), for the purpose of engaging in fleet management-related business. Smartfleet further expanded by acquiring the assets of Webfleet Management Services Pty Ltd, a leading provider of software solutions for online fleet management. Smartfleet also acquired Australian Vehicle Consultants Pty Ltd, a full service fleet management company and a leading provider of vehicle maintenance services. SmartSalary also acquired PBI Benefit Solutions Pty Ltd, a company engaged in issuing credit card products to employees of public hospitals and public benevolent institutions in Australia. In June 2012, the Company, through Paxys N.V., sold its 100% interest in PAU and its subsidiaries to SmartGroup Investments Pty Ltd.
- In January 2007, Paxys, together with joint venture partner Stellar Global, Inc., established Stellar Global Solutions Philippines, Inc. (“SGSP”). SGSP was organized to provide cost-effective Philippine offshore outsourcing for the Australian and UK clients of the Stellar Community. In April 2011, SGSP formed a wholly-owned subsidiary – Stellar Philippines, Inc. (“Stellar Philippines”) to further expand Stellar’s operations in the Philippines. Paxys sold all of its equity interests in SGSP and Stellar Philippines to Stellar Global, Inc. in July 2013.
- In 2008, Paxys partnered with WNS Global Services Netherlands Cooperative U.A. (“WNS Global”) to form WNS Philippines, Inc. Based in Mumbai India, WNS Global is a leading provider of business process outsourcing for various services such as banking, travel, telecommunications, logistics, insurance, and healthcare. In October 2011, Paxys transferred all of its equity interests in WNS Philippines, Inc. to its foreign partner.
- To further improve its IT capabilities and expertise, the Company acquired a majority stake in Ubaldo Reidenbach Solutions, Inc. (“URSI”) in 2008. URSI is a Philippine company engaged in IT consultancy focusing on Linux, Open Source Software and Red Hat Software. In 2008, Paxys acquired majority ownership in Global Ideology Corporation (“GIC”), a software solutions provider. In October 2012, Paxys transferred all of its equity interests in URSI in favor of URSI’s minority shareholders. In August 2011, Paxys sold all of its equity interests in GIC in favor of GIC’s minority shareholders.
- In October 2014, Paxys N.V., a wholly-owned subsidiary of the Parent Company, completed a tender offer to acquire 345,622,477 common shares of the Parent Company representing 30.09% of its outstanding capital stock at the price of ₱3.20 per share. As of December 31,

2014, All Asia Customer Services Holdings Ltd., a privately-held company based in Hong Kong, remains the majority shareholder owning 54.93% of the Parent Company's total issued and outstanding shares. The public ownership level of Paxys is at 14.97% as of December 31, 2014.

The registered office address of the Parent Company is at 15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines.

### **Competition**

Our competition within the global BPO services industry includes U.S.-based outsourcing companies and offshore BPO companies.

Philippines is among the top 3 choices for offshore operations due to its strategic business location, steady supply of competent workers and world-class telecom infrastructure.

### **Sources and Availability of Raw Materials and the Names of Principal Suppliers**

Paxys and its subsidiaries obtain equipment and other materials mostly from local suppliers. The Company is not dependent upon one or limited number of suppliers for essential equipment and other materials as it continuously looks for new suppliers that can satisfy the Company's requirements.

### **Major Customers**

For the past year, the Company's major customers include UK courtrooms for the legal transcription services, Asia-Pacific for the data document processing, customers, television contents in Singapore, healthcare services consumers in Canada.

### **Related Party Transactions**

Transactions between related parties in 2014 mainly include cash advances for working capital advances and are accounted for at arms-length prices. In 2014, Paxys granted cash advances in support of working capital requirements of ACS Pacific Limited amounting to ₱12.4 million

### **Licenses**

On November 25, 2009, Scopeworks' registration of its expanding business process outsourcing service in the field of data transcription activity was approved by BOI. This certification entitles the Scopeworks to a three year ITH starting December 2009 until November 2012. The ITH shall be limited only to the revenue generated from the registered expansion project. As a registered entity, Scopeworks is required to export at least 70% of its total services, among other requirements. The ITH incentive has expired in November 2012. Thus, starting December 1, 2012, the Company is subjected to 30% regular corporate income tax.

Simpro Philippines was registered with the Philippine Economic Zone Authority in October 2012 as Ecozone Information Technology Enterprise. Under Simpro's registration conditions, the Simpro's operations shall not be entitled to Income Tax Holiday (ITH), but shall be entitled only to the 5% Gross Income Tax (5% GIT) incentive, in lieu of all national and local taxes, including the additional deduction of training expenses, as provided in RA 7916, as amended, and to incentives under Article 77, Book VI of EO 226.

**Need for any government approval of principal products or services**

None.

**Effect of existing or probable governmental regulations on the business**

The limitation and conditions on Scopeworks imposed by BOI has already ended in November 2012. In 2013, Scopeworks is subject to government regulations same as regular business entity.

Simpro Philippines is subject to the export sales requirements prescribed for Economic IT Enterprises.

**Research and Development**

The Company has not spent any amount during the last three fiscal years on research and development activities.

**Environmental Matters**

The Company is not involved in any action or proceeding involving non-compliance in any material respect with relevant environmental laws and regulations of the Philippines.

**Employee and Labor Relations**

On a consolidated basis, the Group has 422 employees, including regular, project-based and trainees as of December 31, 2014.

Within the ensuing twelve (12) months, on a consolidated basis, the number of employees of the Group is estimated to be 422 (including regular and project-based). There are no employees subject to Collective Bargaining Agreements or employees on strike in the past three (3) years.

The Group provides its employees with medical insurance and leave benefits. For professional development, the Group provides for team building activities and offers training programs that address the specific needs of employees. To foster work-life balance, the Group sponsors among others, annual summer and year-end activities.

**Legal Proceedings**

There are no material pending legal proceedings to which the Company or any of its subsidiary or affiliates is a party, or of which any of their property is the subject.

## A. Market Price of and Dividends on the Registrant's Common Equity

### (1) Market Information

(i) Principal market where common equity is traded:

#### **Philippine Stock Exchange**

(ii) High and low sales prices for each quarter within the last two fiscal years:

The following are the high and low closing sales prices of the Corporation's shares:

	Closing Prices	
	High	Low
<b>2015</b>		
3 <sup>rd</sup> quarter	4.00	2.90
2 <sup>nd</sup> quarter	3.39	2.80
1 <sup>st</sup> quarter	3.30	2.52
<b>2014</b>		
4 <sup>th</sup> quarter	3.20	2.80
3 <sup>rd</sup> quarter	3.17	2.28
2 <sup>nd</sup> quarter	2.85	2.33
1 <sup>st</sup> quarter	2.72	2.13
<b>2013</b>		
4 <sup>th</sup> quarter	2.22	2.19
3 <sup>rd</sup> quarter	2.00	1.99
2 <sup>nd</sup> quarter	2.11	2.06
1 <sup>st</sup> quarter	2.86	2.75

As of October 31, 2015, last traded price for Paxys shares at the Philippine Stock Exchange was ₱2.80 per share.

### (2) Holders

The number of stockholders of record as of October 31, 2015 in the Company's stock and transfer book was 717. The common shares issued as of the last Report on Number of Shareholders dated October 5, 2015 was 1,148,534,866.

The list of the top 20 stockholders of Paxys common shares as of September 30, 2015 is stated hereunder:

<b>Name</b>	<b>No. of Shares Held</b>	<b>% To Total</b>
All Asia Customer Service Holdings Ltd.	621,260,820	54.09%
PCD Nominee Corporation (Non-Filipino)	464,179,762	40.41%
PCD Nominee Corporation (Filipino)	61,111,308	5.32%
Kho, Jimmy Jao	300,000	0.03%
Chua, Carmen	216,276	0.02%
Granados, Juan P.	158,112	0.01%
Yao Shiong Shio	95,184	0.01%
Kaw Sek & Company	86,088	0.01%
Lim, Ghee Keong	81,800	0.01%
Paredes, Antonio	79,728	0.01%
Urrutia, Kevin	75,000	0.01%
Willis, Hugh Warren	63,111	0.01%
Jalandoni, Rodegelio M.	62,052	0.01%
Celis, Angela	55,776	0.00%
Martinez, Emilio G.	55,236	0.00%
Santiago, Eduardo A.	37,920	0.00%
Tangco, Francisco F.	37,896	0.00%
Co, Victor C.	31,536	0.00%
Asiamerit Securities, Inc	24,000	0.00%
Reyes, Leopoldo T.	19,800	0.00%
<b>Total</b>	<b>1,148,031,405</b>	<b>99.95%</b>

### (3) Dividends

There were no dividends declared to public for the last three (3) years. As of year-end 2014, there are no restrictions imposed on the Company on the declaration of cash or property dividends. There are no recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction.

### (4) Recent Sales of Unregistered or Exempt Securities

(a) Securities Sold

Not applicable.

(b) Underwriters and Other Purchasers

Not applicable.

(c) Consideration

Not applicable.

(d) Exemption from Registration Claimed

Not applicable.

#### **D. Compliance with Corporate Governance Practices**

The Board of Directors and management, employees and shareholders of Paxys, Inc. firmly believe that good corporate governance is a key component of what constitutes sound strategic business management that will support its pursuit of sustainable long-term shareholder value. Our approach to governance is predicated on the belief that good governance is closely linked to the creation of long term shareholder value. The basic structures for the company's corporate governance are primarily contained in its Articles of Incorporation and By-laws, Manual on Corporate Governance and its Code of Ethics. The Board recognizes that it is accountable to the company's shareholders for good governance.

The Company continues to have four (4) Board Committees namely the Executive Committee, the Audit and Risk Management Committee, the Nominations Committee and the Compensation and Remuneration Committee. The Audit and Risk Management Committee, in keeping with regulatory requirements, has updated its Committee Evaluation and Rating System in 2012. Upon review of its charter and evaluation of its performance based on defined rating system, the Committee in 2012 assessed its performance to be satisfactory, able to engage the Board, management and other stakeholders in risk management, control and governance processes to bring about a positive impact while furthering the goals of the company.

Management and the Board continues to assess the company's risks and implements measures to curb and address its exposures while at the same time optimizing opportunities relative to these risks. The Company monetized several investments in 2012. The Company's strong liquidity allows it financial flexibility and prepared for future growth and business opportunities. Henceforth, the Company's Directors and management believes it has adequate resources to continue in operation and as such continue to adopt a going concern basis for the annual report.

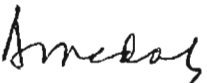
## CERTIFICATION

Upon the written request of the stockholders, the Company undertakes to furnish said stockholder with a copy of SEC Form 17-A free of charge. Any written request for a copy of SEC 17A shall be addressed to the following:

Attention: Mark David P. Martinez  
Corporate Secretary  
15/F 6750 Ayala Office Tower  
Ayala Avenue, Makati City

After reasonable inquiry and to the best of my knowledge and belief, we certify that the information set forth in this report is true, complete and correct. This report is signed in Makati City on 2 November 2015.

**PAXYS, INC.**

  
By: Tarcisio M. Medalla  
Chairman and President

  
Mark David P. Martinez  
Corporate Secretary



Republic of the Philippines )  
Makati City ) S.S.

### UNDERTAKING

I, **MARK DAVID P. MARTINEZ**, of legal age, Filipino citizen, with office address at the 15<sup>th</sup> Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines, after having been sworn into law hereby depose and state that:

1. I am the Corporate Secretary of **PAXYS, INC.** (the "Company"), a corporation duly organized in accordance with Philippine law with principal office at 15<sup>th</sup> Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines;
2. I hereby undertake on behalf of the Company to submit to the Securities and Exchange Commission ("SEC") the Company's 3<sup>rd</sup> Quarter Report (SEC Form 17-Q) for 2015 and upload the same to the Company's website ([www.paxys.com](http://www.paxys.com)) once it becomes available. Copies of the report will also be distributed to the stockholders during the Annual Stockholders' Meeting on 3 December 2015; and
3. I am executing this Affidavit to attest to the truth of the foregoing and for whatever legal purpose it may serve.

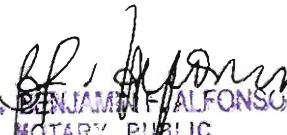
**IN WITNESS WHEREOF**, I have signed this Affidavit on this 28 OCT 2015 at Makati City.

  
**MARK DAVID P. MARTINEZ**  
*Affiant*

**SUBSCRIBED AND SWORN** on this OCT 28 2015 at QUEZON CITY affiant exhibiting to me the following competent evidence of identity:

Name	Competent Evidence of Identity	
	Type of ID and Number	Date and Place of Issue
Mark David P. Martinez	Philippine Passport No. EC0989976	Issued on 2 May 2014 by DFA NCR East

Doc. No. 226 ;  
Page No. 96 ;  
Book No. 63A ;  
Series of 2015.

  
**ATTY. BENJAMIN F. ALFONSO**  
**NOTARY PUBLIC**  
UNTIL December 31, 2016  
PTR No. 0562987-C-1-20-2016- QUEZON CITY  
BP No. 075600-12-11-2015- QUEZON CITY  
Roll No. 13206  
ADM No. N.P.-146 (2015 - 2016)  
TIN No. 177967619  
MCLE EXEMPTED  
#24 Aasot's St. GSIS Village  
Project 8, Quezon City

Republic of the Philippines )  
Makati City ) S.S.

### CERTIFICATION

I, **MARK DAVID P. MARTINEZ**, of legal age, Filipino citizen, with office address at the 15<sup>th</sup> Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines, after having been sworn into law hereby depose and state that:

1. I am the Corporate Secretary of **PAXYS, INC.** (the "Company"), a corporation duly organized in accordance with Philippine law with principal office at 15<sup>th</sup> Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines;
2. I hereby certify that based on information provided to me, none of the following directors and officers of the Company, as of the date of this certification, are employed by and work for the Philippine Government:
  - a) Tarcisio M. Medalla
  - b) Roger Leo A. Cariño
  - c) Christopher B. Maldia
  - d) Lim Ghee Keong
  - e) Roberto A. Atendido
  - f) Jose Antonio A. Lichauco
  - g) George Y. Sycip
  - h) Sivam Kandavanam
  - i) Mark David P. Martinez
  - j) Ana Maria A. Katigbak
3. I have executed this certification to attest to the truth of the foregoing facts as required by the Securities and Exchange Commission.

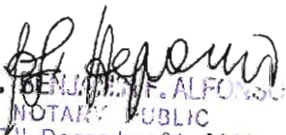
IN WITNESS WHEREOF, I have signed this Affidavit on this 28 OCT 2015 at Makati City.

  
**MARK DAVID P. MARTINEZ**  
Affiant

**SUBSCRIBED AND SWORN** on this OCT 28 2015 at QUEZON CITY exhibiting to me the following competent evidence of identity:

Name	Competent Evidence of Identity	
	Type of ID and Number	Date and Place of Issue
Mark David P. Martinez	Philippine Passport No. EC0989976	Issued on 2 May 2014 by DFA NCR East

Doc. No. 224  
Page No. 45  
Book No. C3A  
Series of 2015.

  
**ATTY. BENJAMIN F. ALFONSO**  
NOTARY PUBLIC  
UNTIL December 31, 2016  
PTR No. 0002937-C 1-20-2015 - QUEZON CITY  
BP No. 875000 12-11-2015 - QUEZON CITY  
Roll No. 13296  
ADM No. N.P-144 (2015-2016)  
TIN No. 177967519  
TICLE EXEMPTED  
# 34 Abset's St. 6313 Village  
Project 8, Quezon City

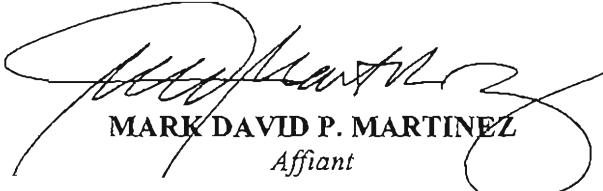
Republic of the Philippines )  
Makati City ) S.S.

### UNDERTAKING

I, **MARK DAVID P. MARTINEZ**, of legal age, Filipino citizen, with office address at the 15<sup>th</sup> Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines, after having been sworn into law hereby depose and state that:

1. I am the Corporate Secretary of **PAXYS, INC.** (the "Company"), a corporation duly organized in accordance with Philippine law with principal office at 15<sup>th</sup> Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City, Philippines;
2. On behalf of the Company, I hereby undertake to submit the Company's Certification on the qualifications and disqualifications of its independent directors to the Securities and Exchange Commission within thirty (30) days after the Company's annual shareholders' meeting; and
3. I have executed the foregoing to confirm the Company's undertaking as required by the Securities and Exchange Commission.

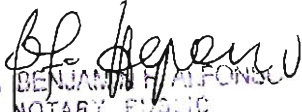
IN WITNESS WHEREOF, I have signed this Affidavit on this 28 OCT 2015 at Makati City.

  
**MARK DAVID P. MARTINEZ**  
Affiant

SUBSCRIBED AND SWORN on this OCT 28 2015 at QUEZON CITY affiant exhibiting to me the following competent evidence of identity:

Name	Competent Evidence of Identity	
	Type of ID and Number	Date and Place of Issue
Mark David P. Martinez	Philippine Passport No. EC0989976	Issued on 2 May 2014 by DFA NCR East

Doc. No. 28;  
Page No. 45;  
Book No. 63; A  
Series of 2015.

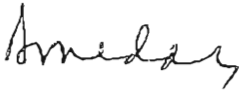
  
CITY, BENJAMIN H. ALFONSO  
NOTARY PUBLIC  
UNTIL December 31, 2018  
PTR No. 0022337-C 1-20-2010- QUEZON CITY  
BP No. 975030 12-11-2010- QUEZON CITY  
Roll No. 13206  
ADM No. N.P.-144 (2015 - 2016)  
TIN NO. 177937818  
MCLE EXEMPTED  
34 Assat's St. GSIS Village  
Project 8, Quezon City

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Paxys, Inc. is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2014 and 2013, including the additional components attached therein, in accordance with **Philippine Financial Reporting Standards**. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

**Reyes Tacandong & Co.**, the independent auditors, appointed by the stockholders has examined the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.



**Tarciso M. Medalla**  
Chairman of the Board and President




**Roger Leo A. Carino**  
Treasurer

Signed in this 24<sup>th</sup> day of March 2015

SCRIBED AND SWORN TO BEFORE ME THIS \_\_\_\_\_  
\_\_\_\_\_ SUBMITTED TO ME HIS/HER  
\_\_\_\_\_ DATED \_\_\_\_\_ AT \_\_\_\_\_

**ATTY. VIRGILIO P. PATALLA**  
NOTARY PUBLIC  
MCCP  
MAR 24 2015  
MANILA



# **Paxys, Inc. and Subsidiaries**

## **Consolidated Financial Statements**

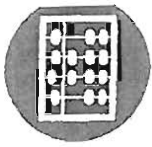
**December 31, 2014**

*(With Comparative Figures for 2013 and 2012)*

With independent auditor's report provided by



**REYES TACANDONG & Co.**  
FIRM PRINCIPLES. WISE SOLUTIONS.



## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
Paxys, Inc.  
15th Floor, 6750 Ayala Office Tower  
Ayala Avenue, Makati City

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Paxys, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Paxys, Inc. and Subsidiaries as at December 31, 2014, and their financial performance and their cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

*Other Matter*

The consolidated financial statements of Paxys, Inc. and Subsidiaries as at and for the years ended December 31, 2013 and 2012 were audited by another auditor whose report dated March 11, 2014, expressed an unmodified opinion on those statements.

**REYES TACANDONG & CO.**

HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until December 31, 2015

SEC Accreditation No. 0663-AR-2 Group A

Valid until April 14, 2017

BIR Accreditation No. 08-005144-6-2013

Valid until November 26, 2016

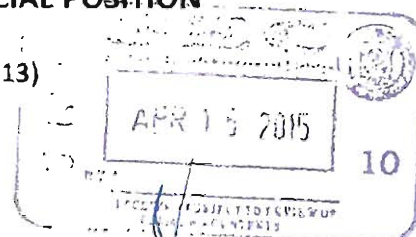
PTR No. 4748326

Issued January 5, 2015, Makati City

March 24, 2015

Makati City, Metro Manila

**PAXYS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2014**  
**(With Comparative Figures for 2013)**  
**(Amounts in Thousands)**



	Note	2014	2013
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	P3,207,725	P4,107,099
Available-for-sale financial assets	8	186,355	184,074
Trade and other receivables	9	75,853	257,646
Other current assets	10	8,847	5,457
Total Current Assets		3,478,780	4,554,276
<b>Noncurrent Assets</b>			
Property and equipment	12	4,709	8,511
Intangible assets	13	2,687	5,117
Other noncurrent assets	14	11,870	10,402
Total Noncurrent Assets		19,266	24,030
		P3,498,046	P4,578,306
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	15	P47,715	P56,388
Income tax payable		665	835
Total Current Liabilities		48,380	57,223
<b>Noncurrent Liabilities</b>			
Retirement liability	16	10,519	7,236
Other noncurrent liabilities	25	603	603
Total Noncurrent Liabilities		11,122	7,839
Total Liabilities		59,502	65,062
<b>Equity</b>			
Capital stock	17	1,148,535	1,071,773
Additional paid-in capital		451,364	451,364
Parent shares held by a subsidiary		(1,149,886)	-
Other equity reserves		120,518	101,245
Retained earnings		2,868,013	2,888,862
Total Equity		3,438,544	4,513,244
		P3,498,046	P4,578,306

See accompanying Notes to Consolidated Financial Statements.



**PAXYS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF INCOME**

**FOR THE YEAR ENDED DECEMBER 31, 2014**

**(With Comparative Figures for 2013 and 2012)**

**[Amounts in Thousands, except Basic/Diluted Earnings (Loss) per Share Data]**

	Note	2014	2013	2012
SERVICE INCOME		₱150,509	₱158,295	₱202,375
COST OF SERVICES	19	(132,527)	(133,714)	(227,333)
GROSS PROFIT (LOSS)		17,982	24,581	(24,958)
GENERAL AND ADMINISTRATIVE EXPENSES	20	(84,727)	(109,127)	(242,795)
INTEREST INCOME	7	38,850	43,888	56,667
NET FOREIGN EXCHANGE GAIN (LOSS)		(3,336)	(82,163)	191,185
EQUITY IN NET EARNINGS (LOSSES) OF JOINT VENTURES	11	–	2,865	(45,768)
GAIN (LOSS) ON DISPOSAL OF INVESTMENTS	6, 11	–	20,557	(1,670)
OTHER INCOME - Net	22	14,020	29,353	2,421
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX		(17,211)	(70,046)	(64,918)
CURRENT INCOME TAX EXPENSE	23	3,638	3,822	8,983
NET LOSS FROM CONTINUING OPERATIONS		(20,849)	(73,868)	(73,901)
NET INCOME FROM DISCONTINUED OPERATIONS	6	–	–	2,448,135
<b>NET INCOME (LOSS)</b>		<b>(₱20,849)</b>	<b>(₱73,868)</b>	<b>₱2,374,234</b>
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Equity holders of the Parent Company		(₱20,849)	(₱73,868)	₱2,374,490
Non-controlling interests		–	–	(256)
		<b>(₱20,849)</b>	<b>(₱73,868)</b>	<b>₱2,374,234</b>
<b>BASIC/DILUTED EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY</b>	24			
Continuing operations		(₱0.03)	(₱0.06)	(₱0.06)
Discontinued operations		–	–	2.13
		<b>(₱0.03)</b>	<b>(₱0.06)</b>	<b>₱2.07</b>

*See accompanying Notes to Consolidated Financial Statements.*

**PAXYS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

FOR THE YEAR ENDED DECEMBER 31, 2014  
(With Comparative Figures for 2013 and 2012)  
(Amounts in Thousands)

	Note	2014	2013	2012
<b>NET INCOME (LOSS)</b>		<b>(P20,849)</b>	<b>(P73,868)</b>	<b>P2,374,234</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<i>Items to be reclassified to profit or loss</i>				
Translation gain (loss)		19,147	268,794	(120,662)
Unrealized gain on fair value changes on available-for-sale financial assets	8	1,306	800	-
		<b>20,453</b>	269,594	(120,662)
<i>Item not to be reclassified to profit or loss</i>				
Remeasurement gain (loss) on retirement liability	16	(1,180)	3,224	(1,537)
		<b>19,273</b>	272,818	(122,199)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>(P1,576)</b>	<b>P198,950</b>	<b>P2,252,035</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>				
<b>ATTRIBUTABLE TO:</b>				
Equity Holders of the Parent Company		(P1,576)	P198,950	P2,252,291
Non-controlling interests		-	-	(256)
		<b>(P1,576)</b>	<b>P198,950</b>	<b>P2,252,035</b>

See accompanying Notes to Consolidated Financial Statements.

**PAXYS, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**(With Comparative Figures for 2013 and 2012)**  
**(Amounts in Thousands)**

	Note	2014	2013	2012
<b>CAPITAL STOCK</b>				
	17			
Balance at beginning of year		₱1,071,773	₱1,071,773	₱1,071,773
Collection of subscription receivable		76,660	-	-
Reclassification		102	-	-
Balance at end of year		<b>1,148,535</b>	1,071,773	1,071,773
<b>ADDITIONAL PAID-IN CAPITAL</b>				
	17	451,364	451,364	451,364
<b>PARENT SHARES HELD BY A SUBSIDIARY</b>				
	17	(1,149,886)	-	-
<b>OTHER EQUITY RESERVES</b>				
<b>Cumulative Translation Adjustment</b>				
Balance at beginning of year		100,420	(168,374)	(47,712)
Translation gain (loss)		19,147	268,794	(120,662)
Balance at end of year		<b>119,567</b>	100,420	(168,374)
<b>Fair Value Changes on Available-for-sale</b>				
<b>Financial Assets</b>				
	8			
Balance at beginning of year		800	-	-
Unrealized gain on fair value changes		1,306	800	-
Balance at end of year		<b>2,106</b>	800	-
<b>Cumulative Remeasurement Gain (Loss) on</b>				
<b>Retirement Liability</b>				
	16			
Balance at beginning of year		25	(1,537)	-
Remeasurement gain (loss)		(1,180)	3,224	(1,537)
Reclassification	16	-	(1,662)	-
Balance at end of year		<b>(1,155)</b>	25	(1,537)
		<b>120,518</b>	101,245	(169,911)
<b>RETAINED EARNINGS</b>				
	17			
Balance at beginning of year		2,888,862	2,961,068	586,834
Net income (loss)		(20,849)	(73,868)	2,374,490
Reclassification	16	-	1,662	-
Disposal of a subsidiary		-	-	(256)
Balance at end of year		<b>2,868,013</b>	2,888,862	2,961,068
		<b>₱3,438,544</b>	₱4,513,244	₱4,314,294

See accompanying Notes to Consolidated Financial Statements.

**PAXYS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**  
**(With Comparative Figures for 2013 and 2012)**  
**(Amounts in Thousands)**

	Note	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income (loss) before income tax:				
Continuing operations		(P17,211)	(P70,046)	(P64,918)
Discontinued operations	6	-	-	2,526,924
		<b>(17,211)</b>	<b>(70,046)</b>	<b>2,462,006</b>
Adjustments for:				
Interest income	7	<b>(38,850)</b>	(43,888)	(56,667)
Provision for impairment losses on:				
Receivables	20	<b>9,768</b>	18,323	10,987
Input value-added tax	20	<b>1,729</b>	3,471	31,735
Depreciation and amortization	12	<b>9,732</b>	13,759	53,798
Net unrealized foreign exchange loss (gain)		<b>(8,496)</b>	78,707	(126,000)
Retirement benefits	16	<b>2,103</b>	2,711	(2,077)
Gain on disposal of:				
Property and equipment	22	<b>(1,873)</b>	(4)	-
Joint venture	11	-	(20,557)	1,670
Subsidiary	6	-	-	(2,274,362)
Reversal of accruals	22	<b>(760)</b>	(24,706)	-
Equity in net losses (earnings) of joint ventures	11	-	(2,865)	45,768
Mark-to-market loss (gain) on derivative instruments	22	-	98	(1,674)
Interest expense	22	-	-	25
Operating income (loss) before working capital changes		<b>(43,858)</b>	(44,997)	145,209
Decrease (increase) in:				
Trade and other receivables		<b>169,724</b>	101,566	(234,654)
Other current assets		<b>(5,117)</b>	981	17,523
Other noncurrent assets		<b>(1,883)</b>	15	2,396
Increase (decrease) in:				
Trade and other payables		<b>(8,043)</b>	(24,041)	(66,247)
Other noncurrent liabilities		-	614	-
Net cash generated from (used for) operations		<b>110,823</b>	34,138	(135,773)
Interest received		<b>35,708</b>	43,888	56,667
Income taxes paid		<b>(835)</b>	(6,824)	(5,848)
Interest paid		-	-	(25)
Net cash flows provided by (used in) operating activities		<b>145,696</b>	71,202	(84,979)

(Forward)

	Note	2014	2013	2012
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to:				
Property and equipment	12	(P2,921)	(P596)	(P3,474)
Intangible assets	13	(969)	(573)	(1,451)
Available-for-sale financial assets		-	(183,274)	-
Investments in joint ventures	11	-	(13,128)	-
Proceeds from:				
Disposal of property and equipment		2,042	38	-
Divestment of a joint venture	11	-	161,172	3,739,759
Increase in net asset of disposal group classified as held for sale		-	-	(173,773)
<b>Net cash provided by (used in) investing activities</b>		<b>(1,848)</b>	<b>(36,361)</b>	<b>3,561,061</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Purchase of Parent shares by a subsidiary	17	(1,107,646)	-	-
Collection of subscription receivable	17	34,420	-	-
<b>Net cash provided by (used in) financing activities</b>		<b>(1,073,226)</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(929,378)</b>	<b>34,841</b>	<b>3,476,082</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		<b>30,004</b>	<b>172,164</b>	<b>6,241</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>4,107,099</b>	<b>3,900,094</b>	<b>417,771</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>7</b>	<b>P3,207,725</b>	<b>P4,107,099</b>	<b>P3,900,094</b>

See accompanying Notes to Consolidated Financial Statements.

## PAXYS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (With Comparative Information for 2013 and 2012)

#### 1. Corporate Information

Paxys, Inc. ("Paxys" or the "Parent Company") is an investment holding company listed (stock symbol: PAX) on the Philippine Stock Exchange (PSE). It was formerly known as Fil-Hispano Holdings Corporation and registered with the Philippine Securities and Exchange Commission (SEC) on February 14, 1952. The corporate life of the Parent Company was extended for another 50 years from February 14, 2002.

In 2004, the Parent Company's principal shareholder undertook a reverse takeover of Paxys by injecting Advanced Contact Solutions, Inc. ("ACS") in exchange for a controlling stake in the Parent Company. ACS at that time was a major call center in the Philippines. Effectively, Paxys became the first call center firm to be listed on the PSE. Thereafter, Paxys made several other investments in the business processes outsourcing (BPO) industry and other related businesses by means of acquisitions and joint ventures. Due to exigencies of the business, Paxys sold all of its equity interests in ACS in January 2011 and henceforth divested most of its BPO assets. At present, the Parent Company's operating subsidiaries provide general transcription, proofreading, data conversion, contact center and back office outsourcing services.

As at December 31, 2013, All Asia Customer Services Holdings Ltd (AACSHL), a company incorporated and domiciled in Hong Kong, owned 73.23% of the Parent Company's total issued and outstanding shares. In October 2014, Paxys N.V., a wholly owned subsidiary of the Parent Company, completed a tender offer to acquire 345,622,477 common shares of the Parent Company representing 30.09% of its outstanding capital stock.

As at December 31, 2014, AACSHL remains the majority shareholder owning 54.93% of the Parent Company's total issued and outstanding shares.

The wholly owned subsidiaries of the Parent Company are as follows:

	Line of Business	Principal Place of Business
Paxys N.V.	Investment holding	Curacao
Paxys Ltd.	Investment holding	Hong Kong
Scopeworks Asia, Inc. (SWA)	Data conversion	Philippines
Paxys Global Services, Inc. (PGS)	Business process outsourcing	Philippines
Paxys Global Services Pte. Ltd. (PGSPL)	Business process outsourcing	Singapore
Regional Operating Headquarters of Paxys Global Services Pte. Ltd. (PGS ROHQ)	Shared services	Philippines

The Parent Company and its subsidiaries are collectively referred to as the Group.

The registered office address of the Parent Company is at 15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City.

### Approval of the Consolidated Financial Statements

The consolidated financial statements as at and for the year ended December 31, 2014 (with comparative figures for 2013 and 2012) have been approved and authorized for issue by the Board of Directors (BOD) on March 24, 2015.

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## 2. Basis of Preparation and Statement of Compliance

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for derivative instruments and available-for-sale (AFS) financial assets, which are measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the functional currency of the Parent Company. All amounts are rounded to the nearest thousands, unless otherwise indicated.

Moreover, the consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council and adopted by the SEC, including the SEC provisions.

This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC).

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## 3. Summary of Changes in Accounting Policies

### Adoption of New and Revised PFRS

The Group adopted the following new and revised PFRS effective January 1, 2014. These are summarized below.

- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, address inconsistencies in current practice when applying the offsetting criteria in PAS 32. The amendments clarify (1) the meaning of "currently has a legally enforceable right of set-off"; and (2) that some gross settlement systems may be considered equivalent to net settlement.
- Amendments to PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*, remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which impairment loss has been recognized or reversed during the period.
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*, provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument.

- Amendments to PFRS 10 *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 27, *Separate Financial Statements - Investment Entities*, provide an exception from the requirements of consolidation for investment entities and instead require these entities to present their investments in subsidiaries as a net investment that is measured at fair value through profit or loss. Investment entity refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both.

The adoption of the foregoing new and revised PFRS did not have any material effect on the consolidated financial statements of the Group. Additional disclosures have been included in the notes to consolidated financial statements, as applicable.

#### New and Revised PFRS Not Yet Adopted

Relevant new and revised PFRS, which are not yet effective for the year ended December 31, 2014 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after July 1, 2014 –

Annual Improvements to PFRS (2010 to 2012 cycle):

- Amendments to PFRS 2, *Share-based Payment: Definition of Vesting Condition*, revise the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues.
- Amendments to PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*, clarify that contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted).
- Amendments to PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*, require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker.
- Amendments to PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*, clarify that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.



- Amendments to PAS 24, *Related Party Disclosures - Key Management Personnel*, clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity.

Annual Improvements to PFRS (2011 to 2013 cycle) –

- Amendments to PFRS 13, *Fair Value Measurement - Portfolio Exception*, clarify that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts.

Effective for annual periods beginning on or after January 1, 2016:

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate Joint Venture*, require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*, clarify that a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.
- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

Annual Improvements to PFRS (2012 to 2014 cycle):

- Amendments to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*, clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should be considered as a continuation of the original plan of disposal rather than a new plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- Amendments to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Financial Statements*, clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- Amendments to PAS 19, *Employee Benefits - Regional Marketing Issue Regarding Discount Rate*, clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- Amendments to PAS 34, *Interim Financial Reporting - Disclosure of Information "Elsewhere in the Interim Financial Report"* clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective for annual periods beginning on or after January 1, 2018 –

- PFRS 9, *Financial Instruments*, reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

Under prevailing circumstances, the adoption of the foregoing new and revised PFRS are not expected to have any material effect on the consolidated financial statements of the Group. Additional disclosures will be included in the consolidated financial statements, as applicable.

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#### 4. Summary of Significant Accounting and Financial Reporting Policies

##### Basis of Consolidation

The consolidated financial statements of the Group include the consolidated financial statements of the Parent Company and its subsidiaries, which it controls as at December 31 of each year. The Parent Company has control over the investee when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Below is the list of the wholly owned subsidiaries of the Parent Company:

	<u>Line of Business</u>
Paxys N.V.	Investment holding
Paxys Ltd.	Investment holding
SWA	Data conversion
PGS	Business process outsourcing
PGSPL	Business process outsourcing
PGS ROHQ	Shared services

The consolidated financial statements are presented in Philippine Peso, which is the functional and presentation currency of the Parent Company. Each entity determines its own functional currency, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity, and items included in the financial statements of each entity are measured using that functional currency.

The functional currency of all the subsidiaries, except Paxys N.V. and Paxys Ltd., is the Philippine Peso. The functional currency of Paxys N.V. and Paxys Ltd. is the United States Dollar (US\$). As at reporting date, the assets and liabilities of Paxys N.V. and Paxys Ltd. are translated into the presentation currency of the Parent Company (the Philippine Peso) at the rate of exchange ruling at financial reporting date and, the profit and loss are translated at the average exchange rate for the year. The exchange differences arising on the translation are taken directly to "Cumulative translation adjustment," a separate component of equity under other equity reserves.

The financial statements of the subsidiaries are prepared using the same reporting year as the Parent Company, using uniform accounting policies for similar transactions and other events in similar circumstances. Adjustments, where necessary, are made to ensure consistency with the accounting policies adopted by the Group. All significant intercompany balances and transactions including unrealized profits and losses, are eliminated in full in preparing the consolidated financial statements.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Parent Company obtains control and are continued to be consolidated until the date when such control ceases. The results of operations of the subsidiaries acquired or disposed of during the year are included in profit or loss from the date of acquisition up to the date of disposal, as appropriate.

Changes in the controlling equity ownership (i.e., acquisition of non-controlling interest or partial disposal of interest over a subsidiary) that do not result in a loss of control are accounted for as equity transactions.

#### Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value on acquisition date and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at its proportionate share in the acquiree's identifiable net assets. Acquisition-related costs incurred are recognized as expense.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

*Common Control Transactions.* Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts such business combinations under the acquisition method of accounting, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the

involvement of parties other than the combining entities such as the non-controlling interest, are being considered.

In cases where the business combination has no substance, the Parent Company accounts for the transaction similar to a pooling of interest. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction (i.e., as either a contribution or distribution of equity). Further, when a subsidiary is transferred in a common control transaction, the difference in the amount recognized and the fair value of consideration received, is also accounted for as an equity transaction.

Comparative balances are restated to include balances and transactions as if the entities have been acquired at the beginning of the earliest year presented and as if the entities have always been combined.

*Goodwill.* Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference (negative goodwill) is recognized in profit or loss. After initial recognition, goodwill is measured at cost less any impairment losses.

For the purpose of impairment assessment, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operations within that unit is disposed of, the goodwill associated with the operations disposed of is included in the carrying amount of the operations when determining the gain or loss on disposal. Goodwill disposed in this circumstance is measured based on the relative values of the operations and the portion of the cash-generating unit retained.

When subsidiaries are disposed, the difference between the selling price and the net assets plus cumulative exchange differences arising from the translation and goodwill is recognized in profit or loss.

*Noncurrent Assets Held for Sale and Discontinued Operations.* The Group classifies noncurrent assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for assets or a disposal group held for sale is met only when the disposal is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale which is expected to be within one year from the date of the classification.

Property and equipment and intangible assets are no longer depreciated or amortized once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that had been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of income and consolidated statement of comprehensive income are presented as if the operation had been discontinued from the start of the comparative year. In the consolidated statement of income of the reporting year, and of the comparable previous year, income and expenses from discontinued operations are reported separately from income and expenses of continuing operations down to the level of net income, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting net profit or loss is reported separately in the consolidated statement of income.

#### Financial Instruments

*Date of Recognition.* Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date (i.e., the date that the Group commits to purchase the asset). Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the market place.

*Initial Recognition.* Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Transaction costs are included in the initial measurement of financial instruments, except for financial instruments classified as fair value through profit or loss (FVPL). Fair value is determined by reference to the transaction price or other market prices. If such market prices are not readily determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rate of interest for similar instruments with similar maturities.

*"Day 1" Difference.* Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data observable from the market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss unless it qualifies for recognition as some other type of asset. For each transaction, the Group determines the appropriate method of recognizing a "Day 1" difference amount.

*Classification of Financial Instruments.* Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are recognized in profit or loss. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax.

The Group classifies its financial assets into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group classifies its financial liabilities into financial liabilities at FVPL or other financial liabilities at amortized cost.

The classification of financial instruments depends on the purpose for which these were acquired and whether these are quoted in an active market. The Group determines the classification of the financial assets and liabilities upon initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group does not have financial instruments classified as financial assets or liabilities at FVPL and HTM investments as at December 31, 2014 and 2013.

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any allowance for impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" in profit or loss on accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization, included as part of "Interest income", is recognized in profit or loss. Gains and losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

The Group has classified its cash in banks and cash equivalents, trade and other receivables and rental and security deposits as loans and receivables.

Cash and cash equivalents include cash on hand, cash in banks and short-term highly liquid interest-bearing fund placements with original maturities of three months or less from the date of acquisition.

*AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. These include equity investments, money market papers and other debt instruments. AFS financial assets are initially measured at fair value plus incremental direct transaction costs. The unrealized gains and losses arising from the fair valuation of AFS financial assets, except for the foreign exchange fluctuations on AFS debt securities and the related effective interest, are excluded, from reported earnings, and are reported in the consolidated statement of comprehensive income and in the equity section of the consolidated statement of financial position. These changes in fair values are recognized in equity until the investment is sold, collected, or otherwise disposed of or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are included in profit or loss.

Where the Group holds more than one investment in the same security, these are deemed to be disposed on a first-in, first-out basis. Interest earned or paid on the investments is recognized as interest income or expense using the effective interest rate method. Dividends earned on investments are recognized in profit or loss when the right of payment has been established. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from the end of reporting year.

The Group has classified its quoted equity investments as AFS financial assets.

*Other Financial Liabilities at amortized cost.* Other financial liabilities pertain to financial liabilities that are not held for trading and are not designated at FVPL upon the inception of the liability. These include liabilities arising from operating and financing activities.

The Group has classified trade and other payables (excluding statutory liabilities) and other noncurrent liabilities as other financial liabilities at amortized cost.

*Impairment of Financial Assets.* The Group assesses at the end of each reporting year whether a financial asset or a group of financial assets is impaired.

a. Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of loss is recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, or the increasing probability that the borrower will enter bankruptcy or other financial reorganization. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment. The impairment assessment is performed at the end of each reporting year. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

b. Financial assets carried at cost

If there is an objective evidence that an impairment loss of an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

c. AFS financial assets

For equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below their cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss on the financial asset previously recognized in profit or loss, is removed from equity and recognized in profit or loss. Impairment losses on equity investments are not reversed through income. Increases in fair value after impairment are recognized directly in the other comprehensive income presented in the consolidated statement of changes in equity.

*Derecognition of Financial Assets and Liabilities.* A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized by the Group when:

- the rights to receive cash flows from the asset has expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset, if any, is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.



A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Group could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in profit or loss.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

*Offsetting of Financial Instruments.* Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### Fair Value Measurement

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active market for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as discussed in the foregoing.

Information about the assumptions made in measuring fair value is included in the following notes to consolidated financial statements:

- Note 5 - Significant Judgments, Accounting Estimates and Assumptions
- Note 26 - Financial Instruments

#### Other Current Assets

*Creditable Withholding Taxes (CWT).* CWT are deducted against income tax payable on the same year the revenue was recognized.

*Prepayments.* Prepayments are expenses paid in advance and recorded as assets before these are utilized. Prepayments are apportioned over the period covered by the payment and recognized in profit or loss when incurred. Prepayments that are expected to be realized within 12 months after the reporting year are classified as current assets. Otherwise, these are classified as other noncurrent assets.

*Value-added Tax (VAT).* Revenue, expenses and assets are recognized, net of the amount of VAT, except where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority.

The net amount of VAT recoverable from the tax authority is included as part of "Other current assets" in the consolidated statement of financial position.

#### Investments in Joint Ventures

The Parent Company has interests in joint ventures, whereby the venturers have a contractual arrangement that establishes joint control. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest.

Interest in a joint venture is initially recognized at cost and subsequently accounted for under the equity method of accounting. Under the equity method of accounting, the interest in a joint venture is carried at cost plus post-acquisition changes in the Group's share in the net assets of the joint venture, less any impairment in value. The share in the results of the operations of the joint venture is recognized in profit or loss. The Group's share of post-acquisition movements in the joint venture's equity reserves is recognized directly in equity. Profits or losses resulting from the transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the interest. If the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group discontinues recognizing its share of further losses.

After the application of the equity method, the Group determines at the end of each reporting year whether there is any objective evidence that the investment is impaired. If this is the case, the amount of impairment is calculated as the difference between the carrying amount of the investment and recoverable amount and recognizes the difference in profit or loss.

After the Group's investment is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes the recognition of its share of those profits only after its share of the profits equals the share of losses not previously recognized.

#### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, amortization and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the asset, including borrowing costs on qualifying assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year incurred.

Major renovations that qualify for capitalization are depreciated and amortized over the remaining useful life of the related asset or up to the date of the next major renovation, whichever is shorter.

Depreciation and amortization are calculated using the straight-line method to allocate the cost over the estimated useful lives of the assets as follows:

<u>Asset Category</u>	<u>Number of Years</u>
Computer equipment	5
Communication equipment	3 to 5
Leasehold improvements	5 or lease term, whichever is shorter
Office furniture, fixtures and equipment	5
Transportation equipment	5

Depreciation and amortization commence when an asset is in its location or condition capable of being operated in the manner intended by management. Depreciation and amortization cease at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with *PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

Fully depreciated property and equipment are retained in the books until these are no longer being used in the operations.

The assets' estimated useful lives and depreciation and amortization method are reviewed, and adjusted if appropriate, periodically to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

When an asset is disposed, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation, amortization and any impairment are derecognized. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the assets and are recognized in profit or loss.

### Intangible Assets

Intangible assets are composed of the Group's website and software packages.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and are recognized in profit or loss in the year in which the expenditures are incurred.

Intangible assets are amortized over the estimated useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization on intangible assets with finite lives is recognized under "Cost of services" and "General and administrative expenses" accounts in profit or loss. Intangible assets with finite lives are amortized over three to five years.

Intangible assets with indefinite useful lives are not amortized, but are assessed for impairment annually either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

### Impairment of Non-financial Assets

The carrying amount of investments in joint ventures, property and equipment, intangible assets and other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Nonfinancial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses are recognized in profit of loss under the expense category consistent with the function of the impaired asset. Impairment loss recognized during interim period in respect to goodwill or an investment, either an equity instrument or a financial asset carried at cost, should not be reversed at year end.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized. After such a reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

### Equity

*Capital Stock.* Capital stock is measured at par value for all shares issued. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

*Additional Paid-in Capital.* Additional paid-in capital includes any premium received in the initial issuances of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of tax.

*Parent Shares Held by a Subsidiary.* Where any entity of the Group purchases the Parent Company's shares (treasury stock), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transactions costs and the related income tax effect, is included in equity attributable to the Parent Company's equity holders.

*Retained Earnings.* Retained earnings represent the cumulative balance of net income or loss, dividend distributions, effects of the changes in accounting policy and other capital adjustments.

*Other Equity Reserves.* Other equity reserves comprise items of income and expenses (including items previously presented under the consolidated statement of changes in equity) that are not recognized in profit or loss for the year in accordance with PFRS.

### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and value-added tax or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

*Service Income.* Revenue is recognized as services are rendered.

*Interest Income.* Revenue is recognized as the interest accrues using the effective interest method, that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

*Equity in Net Earnings (Losses) of Joint Ventures.* The Group recognizes its share in the net income (loss) of joint ventures proportionate to its interests in joint ventures in accordance with the equity method of accounting for investments.

*Other Income.* Revenue is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Group through an increase in asset or reduction in liability and that can be measured reliably.

#### Cost and Expense Recognition

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

*Cost of Services.* Costs of services are recognized as expense when the related services are rendered.

*General and Administrative Expenses.* General and administrative expenses constitute cost of administering the business and cost incurred to sell and market the services. These expenses are recognized in profit or loss as incurred.

#### Employee Benefits

*Short-term Employee Benefits.* The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the year. Short-term employee benefits given by the Group to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

*Retirement Benefits.* Retirement benefit costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. The calculation of defined benefit obligations is performed annually by a qualified actuary.

Remeasurements of the retirement liability, which comprise actuarial gains and losses, are recognized immediately in Other Comprehensive Income. The Group determines the net interest expense to measure the defined benefit obligation at the beginning of the annual period to the then defined benefit liability, taking into account any changes in the defined benefit liability during the year as a result of contributions and benefit payments.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The retirement liability recognized by the Group is the present value of the defined benefit obligation. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rate of government bonds that have terms to maturity approximating the terms of the related retirement and other long-term benefits liability.

*Termination Benefits.* Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after end of the reporting year are discounted to present value.

#### Leases

The determination of whether the arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception on the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is substantial change to the asset.

Where a reassessment is made, lease accounting commences or ceases from the date when the change in circumstances gave rise to reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Leases where a significant portion of the risks and benefit of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

*The Group as a Lessor.* Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income is recognized as income on a straight-line basis over the lease terms.

*The Group as a Lessee.* Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease terms.

#### Foreign Currencies

*Transactions and Balances.* Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in Other Comprehensive Income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in Other Comprehensive Income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

*Foreign Operations.* The assets and liabilities of foreign operations are translated into Philippine Peso at the rate of exchange ruling at financial reporting date and, the profit and loss amounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to "Cumulative translation adjustment," a separate component of equity under other equity reserves. Upon disposal of a foreign operation, the cumulative translation adjustment relating to that particular foreign operation is recognized in profit or loss.

#### Income Taxes

*Current Tax.* Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and the tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting year.

*Deferred Tax.* Deferred tax is provided on all temporary differences at the end of reporting year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax liability is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss. However, deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits (excess of minimum corporate income taxes or MCIT over regular corporate income taxes or RCIT) and unused tax losses (net operating loss carryover or NOLCO), to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at the end of each reporting year and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.



Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the end of reporting year.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off the deferred tax assets against the deferred tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in relation to the underlying transaction either in other comprehensive income or directly in equity.

#### Related Party Relationships and Transactions

Related party transactions consist of transfers of resources, services or obligations between the Group and its related parties.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals who, by owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on legal form.

#### Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. The operating results of an operating segment are reviewed regularly by the chief operating decision maker to determine the resources to be allocated to the segment and assess its performance, and for which financial information is available.

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property and equipment and intangible assets other than goodwill.

#### Provisions and Contingencies

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

#### Events after the Reporting Year

Post year-end events that provide additional information about the Group's financial position at the end of reporting year (adjusting events) are reflected in the consolidated financial statements when material. Post year-end events that are non-adjusting events are disclosed in the notes to consolidated financial statements, when material.

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### 5. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgment, make estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and related disclosures. The Group makes estimates and uses assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as these become reasonably determinable.

Judgments, estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group believes the following represent a summary of significant judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, as well as to the related revenues and expenses, within the next year, and related impact and associated risk in the consolidated financial statements.

#### Judgments

In the process of applying the Group's accounting policies, management exercised judgment on the following items, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements.

*Determination of Functional Currency.* Based on the economic substance of the underlying circumstances, the Group has determined that its functional currency is the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Parent Company and certain subsidiaries operate. It is the currency that mainly influences the sale of services and the costs of providing the services.

*Determination of Operating Segments.* Determination of operating segments is based on the information about components of the Group that management uses to make decisions about the operating matters. Operating segments use internal reports that are regularly reviewed by the Parent Company's chief operating decision maker, which is defined to be the Parent Company's BOD, in order to allocate resources to the segment and assess its performance. The Parent Company reports separate information about an operating segment that meets any of the following quantitative thresholds: (a) its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal

and external, of all operating segments; (b) the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and (c) its assets are 10% or more of the combined assets of all operating segments.

The Group determined that its operating segments are organized and managed separately based on the nature of the business segment, with each business representing a strategic business segment.

*Nonrecognition of Deferred Tax Liability (DTL) on Undistributed Income of a Foreign Subsidiary.* Since Paxys N.V., a company incorporated and domiciled in Curacao, is a wholly owned subsidiary by the Parent Company, management believes that the Parent Company can control the timing of the dividend distribution of Paxys N.V. to the Parent Company. Thus, no deferred tax liability was recognized on the undistributed income of Paxys N.V. Unrecognized DTL on undistributed income of a foreign subsidiary amounted to ₱867.0 million as at December 31, 2014 (₱862.8 million as at December 31, 2013).

*Determination of the Classification of Leases.* Management exercises judgment in determining whether substantially all the significant risks and benefits over the ownership of the assets held for lease are retained by the Group. Lease contracts in which the Group retains substantially all the risks and benefits incidental to ownership of the leased item are accounted for as operating leases. Otherwise, these are considered as finance leases.

*Operating Lease - The Group as a Lessor.* Leases where the Group does not transfer substantially all the risks and benefits over the ownership of the asset are classified as operating leases. Rent income is recognized on a straight-line basis over the lease term of the lease, as applicable.

Rent income included under "Other income" account amounted to ₱10.0 million in 2014 (₱2.1 million in 2013) (see Note 22).

*Operating Lease - The Group as a Lessee.* The Group has various property leases covering a warehouse and office space of a third party, where it has determined that the risks and benefits related to these properties are retained with the lessors. Accordingly, these lease agreements are accounted for as operating leases.

Rent expense from continuing operations included in "Cost of services" and "General and administrative expenses" accounts amounted to ₱15.4 million in 2014 and (₱13.6 million and ₱25.3 million in 2013 and 2012, respectively) (see Note 25).

*Provisions and Contingencies.* The Group is involved in various labor disputes, litigations, claims and tax assessments that are normal to its business. Based on the opinion of the Group's legal counsels on the progress and legal grounds of certain claims and assessments, no provision is deemed necessary in 2014 and 2013. The Group has no outstanding provision for probable losses as at December 31, 2014 and 2013.

#### Estimates and Assumptions

The key assumptions concerning future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing

circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when these occur.

*Determination of Fair Value of Financial Instruments.* Certain financial assets and liabilities are carried at fair value. When the fair values of financial assets and liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active market, their fair value is measured using valuation techniques including the Discounted Cash Flow model. The inputs to these models are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Fair values of financial assets and liabilities are presented in Note 26.

*Estimation of Impairment Losses on Receivables.* The provision for impairment losses on trade and other receivables is estimated based on two methods. The amounts calculated using each of these methods are combined to determine the total amount of impairment losses to be recognized. First, specific accounts are evaluated based on information that certain customers may be unable to meet their financial obligations. In these cases, the Group applies judgment, in recording specific allowances against amounts due to reduce receivable amounts expected to be collected, based on the best available facts and circumstances, including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific allowances against amounts due to reduce receivable amounts expected to be collected. These specific allowances are re-evaluated and adjusted as additional information received impacts the amounts estimated. Second, a collective assessment of historical collection, write-off, experience and customer payment terms is determined. The amount and timing of recorded expenses for any year could therefore differ based on the judgments or estimates made. An increase in the Group's allowance for impairment of trade and other receivables would increase its recorded general and administrative expenses and decrease its current assets.

Allowance for impairment losses on receivables amounted to ₱52.9 million as at December 31, 2014 (₱43.5 million as at December 31, 2013) (see Note 9). The carrying amount of trade and other receivables amounted to ₱75.9 million as at December 31, 2014 (₱257.6 million as at December 31, 2013) (see Note 9).

*Estimation of Impairment Losses on Input VAT.* The provision for impairment losses on input VAT is maintained at a level considered adequate to provide for potentially unrecoverable claims. The Group, on a continuing basis, makes a review of the status of the claims, designed to identify those to be provided with any impairment losses. In these cases, management uses judgment based on the best available facts and circumstances. The amount and timing of recorded expenses for any year would therefore differ based on the judgments or estimates made.

The input VAT amounting to ₱50.0 million as at December 31, 2014 (₱48.3 million as at December 31, 2013) is fully provided with allowance for impairment losses (see Note 10).

*Estimation of Useful Lives of Property and Equipment and Intangible Assets.* The estimated useful life of each of the Group's items of property and equipment and intangible assets is estimated based on the year over which the assets are expected to be available for use. Such estimation is based on a collective assessment of similar business, internal technical evaluation and experience

with similar assets. The estimated useful life of each asset is reviewed at each financial year end and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A change in the estimated useful life on property and equipment and intangible assets would impact the recorded operating expense and noncurrent assets.

There is no change in the estimated useful lives of property and equipment and intangible assets in 2014 and 2013.

The carrying amount of property and equipment and intangible assets are as follow:

	Note	2014	2013
Property and equipment	12	<b>₱4,709</b>	₱8,511
Intangible assets	13	<b>2,687</b>	5,117

*Assessment of Impairment of Nonfinancial Assets.* The Group assesses at the end of each reporting year whether there is any indication that the nonfinancial assets listed below may be impaired. If such indication exists, the Group estimates the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value-in-use. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators. In estimating the value-in-use, the Group is required to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets listed below, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the consolidated financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Group.

The preparation of estimated future cash flows involves significant judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment changes.

The carrying amount of nonfinancial assets that are subject to impairment assessment when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenue or other external indicators) are as follows:

	Note	2014	2013
Property and equipment	12	<b>₱4,709</b>	₱8,511
Intangible assets	13	<b>2,687</b>	5,117

*Determination of Retirement Liability.* The determination of the cost of retirement benefits and related retirement liability is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions, which include among others, discount rate and rate of salary increase are described in Note 16.

Actual results that differ from the assumptions are accumulated and are recognized as part of Other Comprehensive Income. While management believes that the assumptions are reasonable and appropriate, significant differences in the Group's actual experience of significant changes in the assumptions may materially affect the retirement liability.

Retirement liability amounted to ₱10.5 million as at December 31, 2014 (₱7.2 million as at December 31, 2013) (see Note 16). Retirement benefits amounted to ₱2.1 million in 2014 (₱2.7 million and ₱2.1 million in 2013 and 2012, respectively) (see Note 16).

*Assessment of Realizability of Deferred Tax Assets.* The Group reviews the carrying amounts at the end of each reporting year and reduces the amount of deferred tax assets to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred tax assets as at December 31, 2014 and 2013 were not recognized because management believes that sufficient future taxable income will not be available against which deductible temporary differences, carry forward benefits of NOLCO, and excess of MCIT over RCIT will be utilized. Unrecognized deferred tax assets amounted to ₱72.9 million as at December 31, 2014 (₱75.7 million as at December 31, 2013) (see Note 23).

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## 6. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that offers different services and serves different market.

*Segment Assets and Liabilities.* Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, property and equipment and other intangible assets. Segment liabilities include all operating liabilities and consist principally of accounts payable and other liabilities.

*Inter-segment Transactions.* Segment revenue, segment expenses and segment performance include transfers among business segments. Such transfers are eliminated in consolidation.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating income or loss and is measured consistently with operating income or loss in the consolidated financial statements.

Business segment information is reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources among operating segments. For management purposes, the Group is organized into business units based on their products and services and has three reportable operating segments as follows:

- Call Center - The call center segment offers an integrated mix of call center solutions including inbound (customer-initiated) and outbound teleservicing.
- Data Conversion - This segment includes data transcription and scoping services, voice-to-screen message conversion and electronic data encoding and processing.

- Others - This segment includes computer facilities management and IT consultancy. It also includes the operations of the Parent Company.

### Business Segment information

The following table present revenue and expenses and certain assets and liabilities information regarding the Group's business segments as at and for the years ended December 31, 2014, 2013 and 2012:

	2014				
	Call Center	Data Conversion	Others	Eliminations	Consolidated
<b>Results of Operations</b>					
Revenue from external customers	₱4,540	₱145,969	₱-	₱-	₱150,509
Expenses	(5,921)	(154,804)	(56,602)	73	(217,254)
Operating income (loss)	(1,381)	(8,835)	(56,602)	73	(66,745)
Interest income	8	50	38,792	-	38,850
Net foreign exchange gain (loss)	(14)	702	(7,372)	3,348	(3,336)
Other income - net	877	11,857	32,550	(31,264)	14,020
Income tax expense	(2)	(666)	(2,970)	-	(3,638)
Net income (loss)	(₱512)	₱3,108	₱4,398	(₱27,843)	(₱20,849)
<b>Assets and Liabilities</b>					
Assets	₱830	₱60,700	₱5,115,546	(₱1,679,030)	₱3,498,046
Liabilities	77,613	85,153	172,577	(275,841)	59,502
<b>Other Segment Information</b>					
Capital expenditures:					
Property and equipment	₱-	₱2,683	₱238	₱-	₱2,921
Intangible assets	404	565	-	-	969
Depreciation and amortization	2,811	2,213	4,708	-	9,732
<b>2013</b>					
	Call Center	Data Conversion	Others	Eliminations	Consolidated
<b>Results of Operations</b>					
Revenue from external customers	₱21,778	₱136,517	₱-	₱-	₱158,295
Expenses	(13,256)	(136,371)	(98,685)	5,471	(242,841)
Operating income (loss)	8,522	146	(98,685)	5,471	(84,546)
Gain on disposal of a joint venture	-	-	112,340	(91,783)	20,557
Net interest Income (expense)	(14)	(62)	43,963	1	43,888
Net foreign exchange gain (loss)	6	2,590	(70,981)	(13,778)	(82,163)
Equity in net earnings (losses) of joint ventures	(6,588)	-	-	9,453	2,865
Other income - net	-	3,264	33,002	(6,913)	29,353
Income tax expense	(4)	(405)	(3,412)	(1)	(3,822)
Net Income (loss)	₱1,922	₱5,533	₱16,227	(₱97,550)	(₱73,868)
<b>Assets and Liabilities</b>					
Assets	₱21,982	₱61,196	₱5,024,929	(₱529,801)	₱4,578,306
Liabilities	(99,257)	(87,737)	(189,229)	311,161	(65,062)
<b>Other Segment Information</b>					
Capital expenditures:					
Property and equipment	₱12	₱524	₱60	₱-	₱596
Intangible assets	573	-	-	-	573
Depreciation and amortization	1,454	5,651	6,654	-	13,759

	2012						
	Continuing Operations					Disposal Group Classified as Held for Sale - Salary Packaging	Total
	Call Center	Conversion	Others	Eliminations	Consolidated		
<b>Results of Operations</b>							
Revenue from external customers	₱13,655	₱153,295	₱35,425	₱-	₱202,375	₱1,047,489	₱1,249,864
Expenses	(62,587)	(194,856)	(347,652)	134,967	(470,128)	(818,306)	(1,288,434)
Operating income (loss)	(48,932)	(41,561)	(312,227)	134,967	(267,753)	229,183	(38,570)
Gain (loss) on sale of subsidiary	-	-	(1,670)	-	(1,670)	2,274,362	2,272,692
Net interest income (expense)	20	472	55,720	455	56,667	24,152	80,219
Net foreign exchange gain (loss)	(162)	695	197,565	(6,913)	191,185	-	191,185
Equity In net losses of joint ventures	(45,768)	-	-	-	(45,768)	-	(45,768)
Other income (expense) - net	891	6,363	(1,989)	(2,844)	2,421	(773)	1,648
Income tax expense	(4)	(175)	(8,804)	-	(8,983)	(78,789)	(87,772)
<b>Net income (loss)</b>	<b>(₱93,955)</b>	<b>(₱34,206)</b>	<b>(₱71,405)</b>	<b>₱125,665</b>	<b>(₱73,901)</b>	<b>₱2,448,135</b>	<b>₱2,373,634</b>
<b>Assets and Liabilities</b>							
Assets	₱16,875	₱75,301	₱5,061,432	(₱723,514)	₱4,430,094	₱-	₱4,430,094
Liabilities	(90,744)	(105,134)	(521,033)	601,111	(115,800)	-	(115,800)
<b>Other Segment Information</b>							
Capital expenditures:							
Property and equipment	₱1,287	₱1,379	₱808	₱-	₱3,474	₱118,748	₱122,222
Intangible assets	-	365	1,086	-	1,451	-	1,451
Investment in joint venture	111,283	-	-	-	111,283	-	111,283
Depreciation and amortization	1,216	16,839	35,743	-	53,798	146,619	200,417

Inter-segment revenue are eliminated upon consolidation and reflected in the "Eliminations" column.

The Group's revenue from transactions from each of its external customers accounting for 10.0% or more of the consolidated revenue from external customers are as follows:

	2014	2013
Nuance Communications Ireland Ltd	₱139,923	₱109,313
Speedscan Pty. Ltd.	-	27,118
Singnet Pte. Ltd.	-	18,808
	<b>₱139,923</b>	<b>₱155,239</b>

#### Disposal Group and Discontinued Operations

In 2012, the Group sold its 100% equity interest in Paxys, A.U. and Subsidiaries, which consisted the Group's salary packaging segment, for a total consideration of AU\$85.3 million (₱3,647.5 million), a portion of which was initially placed in an escrow account and released upon fulfillment of closing conditions (see Note 9).

Income from discontinued operations in 2012 as presented in the consolidated statement of income includes the following:

Gain on sale of Paxys A.U.	₱2,274,362
Income from discontinued operations before income tax	252,562
Income before income tax	2,526,924
Income tax expense	(78,789)
<b>Net income</b>	<b>₱2,448,135</b>



Also in 2012, the Parent Company sold its 100% equity interest in Ubaldo Reidenbach Solutions, Inc. (URSI). As a result of the sale, URSI ceased from being a subsidiary of the Group effective October 31, 2012. Loss on disposal of subsidiary included in the 2012 consolidated statement of income from continuing operations amounted to ₱1.7 million.

Consolidated statement of income from continuing operations included the results of operations of URSI for the ten-month period ended October 31, 2012 amounting to ₱0.3 million.

## 7. Cash and Cash Equivalents

Cash and cash equivalents consists of:

	2014	2013
Cash on hand	₱60	₱111
Cash in banks	40,234	785,937
Cash equivalents	3,167,431	3,321,051
	<b>₱3,207,725</b>	<b>₱4,107,099</b>

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are made for varying periods of up to 90 days depending on the immediate cash requirements of the Group. Cash equivalents earn interest ranging from 0.04% to 2.50% in 2014 (0.04% to 2.25% in 2013 and 0.50% to 3.66% in 2012).

Interest income recognized by the Group are as follows:

	Note	2014	2013	2012
Cash and cash equivalents		₱38,653	₱38,540	₱56,370
Escrow fund	9	197	5,348	297
		<b>₱38,850</b>	<b>₱43,888</b>	<b>₱56,667</b>

## 8. AFS Financial Assets

AFS financial assets consist of:

	2014	2013
Fixed income investment	₱135,753	₱133,984
Investments in Unit Investment Trust Fund (UITF)	50,602	50,090
	<b>₱186,355</b>	<b>₱184,074</b>

Fixed income investment consists of investment in an international bank, which invest primarily in funds with absolute return investment strategies. Investments in UITF are invested in local banks.

Fair value changes on AFS financial assets are recognized as a separate component of equity. Details of the unrealized gain on fair value changes on AFS financial assets are as follows:

	2014	2013
Balance at beginning of year	₱800	₱-
Unrealized gain	1,306	800
Balance at end of year	₱2,106	₱800

## 9. Trade and Other Receivables

This account consists of:

	Note	2014	2013
Trade		₱50,748	₱55,588
Nontrade		26,929	26,929
Due from related parties	18	34,364	23,458
Escrow fund	6	-	179,210
Others		16,677	15,983
		128,718	301,168
Allowance for impairment losses		(52,865)	(43,522)
		₱75,853	₱257,646

Trade receivables are noninterest-bearing and have average credit terms of 15 to 90 days.

The escrow fund consists of the amount deposited in escrow in relation to the sale of the 100% equity interest of Paxys N.V. in Paxys A.U. to SmartGroup Investments Pty Ltd. The fund was released to Paxys N.V. as follows:

Date of Release	Amount	Equivalent Amount in Philippine Peso
August 8, 2012	AU\$4.3 million	₱189.9 million
February 16, 2013	2.6 million	103.8 million
January 16, 2014	4.2 million	179.2 million

Interest income earned from the escrow fund amounted to ₱0.2 million in 2014 (₱5.3 million and ₱0.3 million in 2013 and 2012, respectively) (see Note 7).

Other receivables, which include advances to employees, security deposits and other nontrade receivables, are noninterest-bearing and are normally settled within one year.

Movements in the allowance for impairment losses follow:

	Note	2014			Total
		Trade Receivables	Due from related parties	Others	
Balance at beginning of year		₱11,053	₱18,792	₱13,677	₱43,522
Provisions	20	264	9,130	374	9,768
Write-off		(264)	(161)	-	(425)
Balance at end of year		₱11,053	₱27,761	₱14,051	₱52,865

	Note	2013			Total
		Trade Receivables	Due from related parties	Others	
Balance at beginning of year		₱14,435	₱9,798	₱1,229	₱25,462
Provisions	20	(3,119)	8,994	12,448	18,323
Write-off		(263)	–	–	(263)
Balance at end of year		₱11,053	₱18,792	₱13,677	₱43,522

## 10. Other Current Assets

This account consists of:

	2014	2013
Input VAT, net of allowance for impairment losses	₱7,030	₱3,374
Advance rentals and prepayments	1,817	2,083
	<b>₱8,847</b>	<b>₱5,457</b>

Advance rentals and prepayments include prepayments for rent, insurance, and taxes and licenses.

The movements in the allowance for impairment losses on input VAT are as follows:

	Note	2014	2013
Balance at beginning of year		₱48,290	₱44,819
Provisions	20	1,729	3,471
Balance at end of year		<b>₱50,019</b>	<b>₱48,290</b>

## 11. Investments in Joint Ventures

The movements in this account for the year ended December 31, 2013 follows:

Cost:		
Balance at beginning of year		₱44,877
Additional investment in PGS Dalian and Simpro Solutions Ltd. (Simpro)		13,128
Sale of investment in Stellar Global Solutions Philippines (Stellar)		(29,256)
Balance at end of year		28,749
Accumulated equity in net earnings:		
Balance at beginning of year		60,169
Equity in net earnings		2,865
Sale of investment in Stellar		(91,783)
Balance at end of year		(28,749)
		<b>₱–</b>

The following are the joint ventures of the Group:

	Place of Incorporation	Principal Activity	Percentage of Ownership	
			2014	2013
PGS Dalian	China	Call center	50.0%	50.0%
Simpro	Hong Kong	Call center	50.0%	50.0%

The Group's investments in joint ventures are fully impaired as at December 31, 2014 and 2013. Share in net losses amounted to ₱7.0 million in 2013.

Cumulative unrecognized share in net losses of the joint ventures amounted to ₱5.6 million as at December 31, 2014 (₱2.3 million as at December 31, 2013). The unrecognized share in net losses of the joint ventures amounted to ₱3.3 million in 2014 (₱2.3 million in 2013).

On July 31, 2013, the Parent Company signed a Deed of Absolute Sale of Shares and Deed of Assignment of Share Subscriptions for the transfer of joint venture share in Stellar for \$3.7 million (₱161.2 million). Pursuant to the sale, the Parent Company transferred 460,000 shares of Stellar, representing 50% of Stellar's total share capital. Gain on disposal of a joint venture included in the 2013 consolidated statement of income amounted to ₱20.6 million.

The Group has no outstanding commitments with the joint ventures as at December 31, 2014 and 2013. The joint ventures have no contingent liabilities or capital investments as at December 31, 2014 and 2013.

Summarized financial information of the joint ventures are as follows:

	2014	2013
Current assets	₱6,940	₱8,038
Noncurrent assets	2,283	2,583
Current liabilities	(18,722)	(15,534)
Revenue	32,600	388,964
Net income (loss)	(3,287)	10,287

## 12. Property and Equipment

Movements in this account are as follows:

	2014					Total
	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	
<b>Cost</b>						
Balance at beginning of year	₱145,405	₱12,052	₱167,258	₱19,209	₱17,758	₱361,682
Additions	731	-	416	739	1,035	2,921
Disposal	(37,254)	(4,216)	(6,355)	(8,321)	(2,623)	(58,769)
<b>Balance at end of year</b>	<b>108,882</b>	<b>7,836</b>	<b>161,319</b>	<b>11,627</b>	<b>16,170</b>	<b>305,834</b>
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	143,211	11,938	164,257	17,164	16,601	353,171
Depreciation and amortization	2,088	114	1,802	1,513	816	6,333
Disposal	(37,230)	(4,216)	(6,355)	(8,321)	(2,257)	(58,379)
<b>Balance at end of year</b>	<b>108,069</b>	<b>7,836</b>	<b>159,704</b>	<b>10,356</b>	<b>15,160</b>	<b>301,125</b>
<b>Net Book Value</b>	<b>₱813</b>	<b>₱-</b>	<b>₱1,615</b>	<b>₱1,271</b>	<b>₱1,010</b>	<b>₱4,709</b>

	2013					
	Computer Equipment	Communication Equipment	Leasehold Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Total
<b>Cost</b>						
Balance at beginning of year	₱148,522	₱12,052	₱166,385	₱19,179	₱17,709	₱363,847
Additions	154	-	412	30	-	596
Disposal	(3,271)	-	-	-	-	(3,271)
Translation adjustments	-	-	461	-	49	510
<b>Balance at end of year</b>	<b>145,405</b>	<b>12,052</b>	<b>167,258</b>	<b>19,209</b>	<b>17,758</b>	<b>361,682</b>
<b>Accumulated Depreciation and Amortization</b>						
Balance at beginning of year	141,469	11,884	162,514	15,622	14,742	346,231
Depreciation and amortization	4,979	54	1,719	1,542	1,839	10,133
Disposal	(3,237)	-	-	-	-	(3,237)
Translation adjustments	-	-	24	-	20	44
<b>Balance at end of year</b>	<b>143,211</b>	<b>11,938</b>	<b>164,257</b>	<b>17,164</b>	<b>16,601</b>	<b>353,171</b>
<b>Net Book Value</b>	<b>₱2,194</b>	<b>₱114</b>	<b>₱3,001</b>	<b>₱2,045</b>	<b>₱1,157</b>	<b>₱8,511</b>

Depreciation and amortization consist of:

	Note	2014	2013	2012
Property and equipment		<b>₱6,333</b>	₱10,133	₱49,576
Intangible assets	13	<b>3,399</b>	3,626	4,222
		<b>₱9,732</b>	<b>₱13,759</b>	<b>₱53,798</b>

Depreciation included in income from discontinued operations amounted to ₱33.8 million in 2012.

Depreciation and amortization are allocated as follows:

	Note	2014	2013	2012
Cost of services	19	<b>₱1,527</b>	₱4,279	₱43,649
General and administrative expenses	20	<b>8,205</b>	9,480	10,149
		<b>₱9,732</b>	<b>₱13,759</b>	<b>₱53,798</b>

As at December 31, 2014, fully depreciated property and equipment with aggregate cost amounting to ₱53.3 million are still being used in the operations by the Group.

### 13. Intangible Assets

Movements in this account are as follows:

	Note	2014	2013
<b>Cost</b>			
Balance at beginning of year		<b>₱12,965</b>	₱12,392
Additions		<b>969</b>	573
<b>Balance at end of year</b>		<b>13,934</b>	12,965
<b>Accumulated Amortization</b>			
Balance at beginning of year		<b>7,848</b>	4,222
Amortization	12	<b>3,399</b>	3,626
<b>Balance at end of year</b>		<b>11,247</b>	7,848
<b>Net Book Value</b>		<b>₱2,687</b>	₱5,117

Intangible assets include acquired website and software packages, which are amortized over three to five years.

#### 14. Other Noncurrent Assets

This account consists of:

	Note	2014	2013
Rental and security deposits	25	₱5,208	₱5,302
Others		6,662	5,100
		<b>₱11,870</b>	<b>₱10,402</b>

Rental and security deposits pertain to cash deposits on lease agreements, which are refundable at the end of various lease periods (see Note 25).

#### 15. Trade and Other Payables

This account consists of:

	Note	2014	2013
Trade		₱19,301	₱22,798
Statutory payables		7,239	7,883
Dividends payable	17	6,554	6,554
Accrued expenses			
Salaries and wages		3,071	4,598
Professional fees		2,101	2,292
Taxes and licenses		1,753	2,694
Rentals		1,137	1,293
Communications		159	909
Others		6,026	3,229
Due to related parties	18	53	154
Others		321	3,984
		<b>₱47,715</b>	<b>₱56,388</b>

Trade payables are noninterest-bearing and are normally settled on a 90-day term.

Statutory payables represent withholding tax payable, SSS premiums and other liabilities to the government.

Accrued expenses and other current liabilities, which consists mainly of reimbursable expenses from customers, are normally settled within 30 to 60 days

## 16. Retirement Benefits

The Parent Company, SWA, PNV and PGSI maintain individual and separate unfunded, non-contributory, defined benefit plans covering all eligible employees. An independent actuary conducts an actuarial valuation of the retirement liability. The latest actuarial report was dated December 31, 2014.

The retirement benefits recognized in the consolidated statement of income is as follows:

	2014	2013	2012
Current service cost	₱2,037	₱2,257	₱3,641
Interest cost	430	454	575
Reversal of retirement liability	(364)	-	-
Adjustment due to curtailment	-	-	(6,293)
	<b>₱2,103</b>	<b>₱2,711</b>	<b>(₱2,077)</b>

The cumulative remeasurement gain (loss) on retirement liability recognized as other comprehensive income follows:

	2014	2013
Balance at beginning of year	₱25	(₱1,537)
Remeasurement gain (loss)	(1,180)	3,224
Reclassification	-	(1,662)
Balance at end of year	<b>(₱1,155)</b>	<b>₱25</b>

Changes in the present value of obligation are as follows:

	2014	2013
Balance at beginning of year	₱7,236	₱7,749
Current service cost	2,037	2,257
Interest cost	430	454
Reversal of retirement liability	(364)	-
Remeasurement loss (gain) recognized in OCI	1,180	(3,224)
Balance at end of year	<b>₱10,519</b>	<b>₱7,236</b>

The principal assumptions used in determining the cost of retirement benefits of the Group are shown below:

	2014	2013
Discount rate	4.49%	6.38%
Salary increase rate	5.00%	5.00%

The sensitivity analysis based on reasonably possible changes of the assumptions as at December 31, 2014 is as follows:

	Change in Assumption	Effect on Retirement Liability
Discount rate	(20.50%)	(₱1,113,462)
	26.70%	1,466,123

	Change in Assumption	Effect on Retirement Liability
Salary Rate	25.05%	₱1,379,611
	(19.90%)	(1,078,824)

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the defined benefit liability at the end of each reporting date after adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged. The corresponding change in the defined benefit liability was expressed as a percentage change from the base defined benefit liability.

Shown below is the maturity analysis of the undiscounted benefit payments:

Less than one year	₱-
More than one year to five years	72,769
More than five years	1,283,478

The average duration of the defined benefit obligation at the end of the reporting year is between 23 to 28 years.

## 17. Equity

### Capital Stock

Movements in this account follows:

	2014		2013	
	Number of Shares	Amount	Number of Shares	Amount
Common Stock "Class A" - ₱1 par value				
Authorized	1,800,000,000	₱1,800,000	1,800,000,000	₱1,800,000
Issued and outstanding:				
Balance at beginning of year	1,148,534,866	₱1,148,535	1,148,534,866	₱1,148,535
Subscription receivable:				
Balance at beginning of year	-	(76,762)	-	(76,762)
Collections	-	76,660	-	-
Reclassification	-	102	-	-
Balance at end of year	-	-	-	(76,762)
	1,148,534,866	₱1,148,535	1,148,534,866	₱1,071,773

In 2014, Paxys N.V., through a tender offer, completed the purchase of 345,622,477 common shares of the Parent Company representing 30.09% of its outstanding capital stock for a total consideration of ₱1,149.9 million. Total amount recognized as "Parent shares held by a subsidiary" includes transaction costs amounting to ₱1.7 million.



Additional Paid-in Capital

This account consists of:

Issuance of shares of stock	₱348,213
Stock options	103,151
	₱451,364

Additional paid-in capital from issuance of shares of stock represents the excess of paid-up capital over the par value of capital stock. Additional paid-in capital from stock options represents increase in equity arising from equity-settled share-based payment transactions.

Retained Earnings

Undistributed retained earnings of a subsidiary amounting to ₱2,889.8 million as at December 31, 2014 (₱2,876.0 million as at December 31, 2013) are not available for dividend declaration until these are distributed by the subsidiary to the Parent Company.

Outstanding dividends payable of the Parent Company as at December 31, 2014 and 2013 amounted to ₱6.6 million, which pertain to dividends declared in prior years.

**18. Related Party Transactions and Balances**

In the normal course of business, the Group has transactions with related parties pertaining to noninterest-bearing advances as follows:

Related Party	Year	Transactions during the Year	Due from Related Parties (see Note 9)	Due to Related Parties (see Note 15)
<b>Joint Venture</b>				
PGS Dalian	<b>2014</b>	₱-	₱4,548	₱-
	2013	-	4,548	-
Simpro Solutions Philippines, Inc.*	<b>2014</b>	-	1,146	-
	2013	17,733	2,552	101
<b>Entities with Common Stockholders</b>				
NGL Pacific Limited	<b>2014</b>	13	2,127	-
	2013	362	2,114	-
ACS Pacific Limited	<b>2014</b>	12,434	22,671	-
	2013	8,937	10,253	-
Others	<b>2014</b>	151	3,872	53
	2013	56	3,991	53
	<b>2014</b>		₱34,364	₱53
	2013		23,458	154

\* 50% effective interest through Paxys Ltd.

Allowance for impairment losses related to these receivables amounted to ₱27.8 million and ₱18.8 million as at December 31, 2014 and 2013, respectively (see Note 9).

Due to/from Related Parties

Outstanding balances are unsecured and noninterest-bearing, have no fixed repayment terms and are normally settled in cash. No guarantees have been provided or received for these balances. Impairment assessment is undertaken each financial year.

Compensation of Key Management Personnel of the Group

	2014	2013	2012
Salaries and wages	₱10,256	₱10,585	₱24,748
Termination benefits	–	–	6,256
Other short-term benefits	1,740	3,822	4,987
	<b>₱11,996</b>	<b>₱14,407</b>	<b>₱35,991</b>

**19. Cost of Services**

This account consists of:

	Note	2014	2013	2012
Personnel cost	21	₱86,476	₱96,889	₱110,318
Outside services		10,947	–	–
Rent	25	10,220	8,771	18,562
Utilities		8,566	8,735	19,011
Communication		5,237	5,205	6,093
Security and janitorial services		3,976	2,800	7,685
Association dues		2,170	2,152	6,154
Depreciation and amortization	12	1,527	4,279	43,649
Supplies		1,232	1,347	1,231
Others		2,176	3,536	14,630
		<b>₱132,527</b>	<b>₱133,714</b>	<b>₱227,333</b>

**20. General and Administrative Expenses**

This account consists of:

	Note	2014	2013	2012
Personnel cost	21	₱21,056	₱35,486	₱73,060
Professional fees		16,667	9,080	47,917
Provision for impairment losses on:				
Receivables	9	9,768	18,323	10,987
Input VAT	10	1,729	3,471	31,735
Depreciation and amortization	12	8,205	9,480	10,149
Communication		5,456	4,864	7,611
Rent	25	5,131	4,783	6,708
Taxes and licenses		3,862	1,806	8,065
Insurance		2,030	3,026	3,065
Transportation and travel		1,852	2,350	11,745
Utilities		1,849	1,979	2,954

(Forward)

	Note	2014	2013	2012
Security and janitorial services		₱1,552	₱1,969	₱3,693
Repairs and maintenance		1,012	2,127	1,391
Entertainment, amusement and recreation		1,006	1,177	2,420
Loss on write-off of receivables		–	3,264	1,055
Others		3,552	5,942	20,240
		<b>₱84,727</b>	<b>₱109,127</b>	<b>₱242,795</b>

## 21. Personnel Cost

This account consists of:

	Note	2014	2013	2012
Salaries, wages and allowances		₱88,442	₱104,694	₱153,440
Training		2,224	2,724	1,874
Retirement benefits	16	2,103	2,711	(2,077)
Other employee benefits		14,763	22,246	30,141
		<b>₱107,532</b>	<b>₱132,375</b>	<b>₱183,378</b>

Other employee benefits pertain to leave benefits, health care and insurance benefits, and other benefits granted to employees.

These were classified as follows:

	Note	2014	2013	2012
Cost of services	19	₱86,476	₱96,889	₱110,318
General and administrative expenses	20	21,056	35,486	73,060
		<b>₱107,532</b>	<b>₱132,375</b>	<b>₱183,378</b>

## 22. Other Income (Charges)

This account consists of:

	Note	2014	2013	2012
Rental income	25	₱10,018	₱2,126	₱–
Gain on disposal of property and equipment		1,873	4	–
Reversal of accruals		760	24,706	–
Mark-to-market gain (loss) on derivative instruments		–	(98)	1,674
Interest expense		–	–	(25)
Others		1,369	2,615	772
		<b>₱14,020</b>	<b>₱29,353</b>	<b>₱2,421</b>

### 23. Income Tax

The components of current income tax expense as reported in the statement of comprehensive income are as follows:

	2014	2013	2012
Final tax	₱2,558	₱2,823	₱3,305
MCIT	1,080	999	-
RCIT	-	-	5,678
	<b>₱3,638</b>	<b>₱3,822</b>	<b>₱8,983</b>

- a. Details of unrecognized deferred tax assets relating to NOLCO, MCIT and other temporary differences are as follows:

	2014	2013
NOLCO	₱47,624	₱53,103
Allowance for impairment losses on receivables and input VAT	19,283	15,834
MCIT	4,067	4,233
Retirement liability	3,888	3,257
Unrealized foreign exchange gain	(2,689)	(1,440)
Accruals and provision	360	360
Accrued rent expense	352	396
	<b>₱72,885</b>	<b>₱75,743</b>

Management believes that it may not be probable that sufficient future taxable profits will be available against which the NOLCO, excess MCIT and other deductible temporary differences can be utilized.

- b. Details of carry forward benefits arising from NOLCO and excess MCIT are as follows:

#### NOLCO

Year Incurred	Balance as at December 31, 2013	Additions	Expired	Balance as at December 31, 2014	Available Until
2011	₱42,289	₱-	₱42,289	₱-	2014
2012	82,019	-	-	82,019	2015
2013	52,702	-	-	52,702	2016
2014	-	24,026	-	24,026	2017
	<b>₱177,010</b>	<b>₱24,026</b>	<b>₱42,289</b>	<b>₱158,747</b>	

#### MCIT

Year Incurred	Balance as at December 31, 2013	Additions	Expired	Balance as at December 31, 2014	Available Until
2011	₱1,246	₱-	₱1,246	₱-	2014
2012	1,988	-	-	1,988	2015
2013	999	-	-	999	2016
2014	-	1,080	-	1,080	2017
	<b>₱4,233</b>	<b>₱1,080</b>	<b>₱1,246</b>	<b>₱4,067</b>	

- c. The reconciliation of income tax benefit computed at statutory income tax and income tax expense as shown in the consolidated statement of income is as follows:

	2014	2013	2012
Income tax benefit at statutory income tax rate	(P5,163)	(P21,014)	(P19,475)
Net changes in unrecognized deferred tax assets	(2,858)	24,857	50,785
Income tax effects of:			
Expired NOLCO	12,687	-	-
Nontaxable income	(8,050)	(37,647)	-
Nondeductible expenses	7,055	39,273	8,003
Interest income subjected to final tax	(3,837)	(4,232)	(6,162)
Final tax on interest income	2,558	2,823	3,305
Expired MCIT	1,246	622	-
Nondeductible expenses under income tax holiday	-	-	(41,204)
Equity in net losses (earnings) of joint ventures	-	(860)	13,731
<b>Income tax expense</b>	<b>P3,638</b>	<b>P3,822</b>	<b>P8,983</b>

#### 24. Earnings (Loss) per Share

Basic/diluted earnings (loss) per share are computed as follows:

	Note	2014	2013	2012
Net income (loss) attributable to equity holders of the Parent Company:				
<i>Continuing operations</i>		(P20,849)	(P73,868)	(P73,901)
<i>Discontinued operations</i>	6	-	-	2,448,135
Issued and outstanding shares		1,148,535	1,148,535	1,148,535
Treasury shares		(345,622)	-	-
Weighted average number of shares issued and outstanding		802,913	1,148,535	1,148,535
Basic/diluted earnings (loss) per share:				
<i>Continuing operations</i>		(P0.03)	(P0.06)	(P0.06)
<i>Discontinued operations</i>		-	-	2.13

Basic earnings (loss) per share is determined by dividing net income (loss) by the weighted average number of common shares outstanding during the year, with retroactive adjustments for any stock dividends declared.

Diluted earnings (loss) per common share is computed in the same manner, adjusted for the effect of the shares issuable to qualified directors, officers and employees under the Parent Company's stock option plan, which is assumed to be exercised at the date of grant.

There are no potential dilutive common shares as at December 31, 2014 and 2013.

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## 25. Lease Commitments

### a. The Group as a Lessee

- i. The Parent Company has an existing lease agreement with a third party for the lease of office space until April 30, 2016. The lease is renewable upon mutual consent of the parties involved.
- ii. SWA has an existing five year agreement with LSL Realty Development Corporation for the lease of a warehouse and an open space in LISP 1, Brgy. Diezmo, Cabuyao, Laguna from January 1, 2014 to December 31, 2018. The monthly rent is subject to a 5% annual escalation rate beginning on the third year. As at December 31, 2014, refundable deposit and security deposit amounted to ₱1,285.1 and ₱1,487.9, respectively.
- iii. On May 5, 2009, SWA entered into a contract with Property Index Corporation for the lease of an office and parking spaces in Citibank Centre Condominium. The lease agreement was renewed in 2011 until 2013.

On October 7, 2013, the Company renewed the lease contract from December 1, 2013 to December 31, 2015. The monthly rent is ₱423.2 for the first year and one month and ₱444.4 for the remaining term of the lease. As at December 31, 2014, refundable deposit amounted to ₱1,269.7 in the consolidated statement of financial position.

Outstanding rental and security deposits on lease commitments, presented under "Other noncurrent assets" account in the consolidated statement of financial position, amounted to ₱5.2 million as at December 31, 2014 (₱5.3 million as at December 31, 2013) (see Note 14). These rental and security deposits are either refundable in cash or will be applied against unpaid rental upon termination of lease agreements.

Total rent expense from continuing operations under "Cost of services" and "General and administrative expenses" accounts in the consolidated statement of income amounted to ₱15.4 million in 2014 (₱13.6 million and ₱25.3 million in 2013 and 2012, respectively) (see Notes 19 and 20).

The future minimum annual lease payables under noncancellable operating leases are as follows:

	2014
Within one year	₱15,706
After one year but not more than five years	18,814
	<u>₱34,520</u>

### b. The Group as a Lessor

SWA entered into sublease agreements with third parties to sublease the office space in the Citibank Centre Condominium.

On December 1, 2013, the Company entered into a lease agreement with Singlepoint Call Centers, Inc. from December 1, 2013 to December 31, 2015 subject to renewal upon mutual agreement. Monthly fee is per workstation subject to an increase of not more than 3% of the current rate upon renewal. As at December 31, 2014 and 2013, refundable deposits amounted to ₱603 in the consolidated statement of financial position.

Rent income amounted to ₱10.0 million in 2014 (₱2.1 million in 2013) (see Note 22).

## 26. Financial Instruments

### Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents, AFS financial assets, trade and other receivables and trade and other payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The BOD reviews and agrees policies for managing each of these risks and these are summarized below.

### *Foreign Currency Risk*

The Group has transactional currency exposure. Such exposure arises from services denominated in US Dollar (US\$) and AU\$. Service income of SWA is approximately 96% and 4% denominated in US\$ and AU\$, respectively, for the year ended December 31, 2014 (80% and 19% denominated in US\$ and AU\$, respectively, for the year ended December 31, 2013). As a result, the Group's consolidated financial performance and financial position can be affected significantly by movements in the US\$/Philippine Peso and AU\$/Philippine Peso exchange rates.

The Group's objective is to limit the impact of any appreciation of the Philippine Peso vis-a-vis with its foreign currency denominated revenue and receivables and ultimately on the financial performance. To the extent possible, the Group should obtain debt financing in the currency in which majority of revenue are denominated in order to match as much as possible foreign currency-denominated costs with foreign currency-denominated revenue.

It is also the Group's policy to make use of hedging instruments including derivatives (i.e., currency forward contracts) to manage the effects of foreign exchange fluctuations on financial results. These hedging instruments or derivatives are not used for trading or speculative purposes. Counterparties to derivative contracts are carefully selected major financial institutions, which are assessed based on their industry standing and historical performance.

The following rates of exchange have been adopted by the Group in translating foreign currency consolidated statement of comprehensive income and consolidated statement of financial position items as at and for the years ended December 31, 2014 and 2013:

	2014		2013	
	Closing	Average	Closing	Average
Philippine Peso to 1 unit of Foreign Currency:				
US\$	₱44.72	₱44.66	₱44.40	₱42.32
AU\$	36.21	36.86	39.46	41.02

As at December 31, 2014 and 2013, the Group's significant foreign currency-denominated monetary assets (translated in Philippine Peso) are as follows:

	2014			2013		
	In US\$	In AU\$	Philippine Peso Equivalent	In US\$	In AU\$	Philippine Peso Equivalent
Cash and cash equivalents	US\$48,595	AU\$99	₱2,177,253	US\$63,214	AU\$10,077	₱3,204,010
Trade and other receivables	871	-	39,443	989	103	47,986
Escrow fund	-	-	-	-	4,542	179,210
<b>Foreign currency-denominated monetary assets</b>	<b>US\$49,466</b>	<b>AU\$99</b>	<b>₱2,216,696</b>	<b>US\$64,203</b>	<b>AU\$14,722</b>	<b>₱3,431,206</b>

The following table demonstrates the sensitivity to a reasonably possible change in US\$ and AU\$ exchange rates to Philippine Peso with all other variables held constant, of the Group's consolidated income before income tax (due to changes in the fair value of financial assets and liabilities). Reasonably possible change is based on net average movement of foreign currency closing rates for the last five years.

	2014		2013	
	Increase (Decrease) in Exchange Rates	Increase (Decrease) on Income Before Tax	Increase (Decrease) in Exchange Rates	Increase (Decrease) on Income before Tax
US\$	₱0.32 (0.32)	₱15,829 (15,829)	₱3.35 (3.35)	₱214,759 (214,759)
AU\$	3.25 (3.25)	128,668 (128,668)	3.21 (3.21)	47,286 (47,286)

The decrease in Philippine Peso to US\$ and AU\$ means stronger Philippine Peso against the US\$ rates while increase in Philippine Peso to US\$ and AU\$ rate means stronger foreign rates against Philippine Peso.

#### Credit Risk

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

Since the Group trades only with recognized third parties, there is no requirement for collateral. Also, the Group has an existing contract or master agreement with its key customers to protect itself from bad debt losses.

The gross maximum exposure of the Group to credit risk corresponds to the total carrying values of the following financial assets:

	2014	2013
Loans and receivables:		
Cash and cash equivalents <sup>(a)</sup>	₱3,207,665	₱4,106,988
Trade and other receivables	75,853	257,646
Rental and security deposits <sup>(b)</sup>	5,208	5,302
AFS financial assets	186,355	184,074
<b>Total credit risk exposure</b>	<b>₱3,475,081</b>	<b>₱4,554,010</b>

<sup>(a)</sup>Excluding cash on hand amounting to ₱60,000 and ₱110,680 as at December 31, 2014 and 2013, respectively.

<sup>(b)</sup>Included under "Other noncurrent assets."



The analysis of the Group's financial assets that were past due but not impaired as at December 31, 2014 and 2013 follows:

	2014						
	Neither Past Due nor Impaired	Past Due but not Impaired			Total	Impaired	Total
		Less than 30 Days	30 to 60 Days	More than 60 Days			
<b>Loans and Receivables</b>							
Cash and cash equivalents <sup>(a)</sup>	P3,207,665	P-	P-	P-	P-	P-	P3,207,665
Trade and other receivables:							
Trade receivables	35,726	3,969	-	-	3,969	11,053	50,748
Nontrade	26,929	-	-	-	-	-	26,929
Advances to related parties	-	-	-	6,603	6,603	27,761	34,364
Other receivables	-	-	2,101	525	2,626	14,051	16,677
Rental and security deposits <sup>(b)</sup>	5,208	-	-	-	-	-	5,208
AFS financial assets	186,355	-	-	-	-	-	186,355
	<b>P3,461,883</b>	<b>P3,969</b>	<b>P2,101</b>	<b>P7,128</b>	<b>P13,198</b>	<b>P52,865</b>	<b>P3,527,946</b>

<sup>(a)</sup>Excluding cash on hand amounting to P60,000.

<sup>(b)</sup>Included under "Other noncurrent assets."

	2013						
	Neither Past Due nor Impaired	Past Due but not Impaired			Total	Impaired	Total
		Less than 30 Days	30 to 60 Days	More than 60 Days			
<b>Loans and Receivables</b>							
Cash and cash equivalents <sup>(a)</sup>	P4,106,988	P-	P-	P-	P-	P-	P4,106,988
Trade and other receivables:							
Trade receivables	41,108	1,322	1,105	1,000	3,427	11,053	55,588
Nontrade	26,929	-	-	-	-	-	26,929
Advances to related parties	-	2,552	-	2,114	4,666	18,792	23,458
Other receivables	583	87	-	1,636	1,723	13,677	15,983
Escrow fund	179,210	-	-	-	-	-	179,210
Rental and security deposits <sup>(b)</sup>	5,302	-	-	-	-	-	5,302
AFS financial assets	184,074	-	-	-	-	-	184,074
	<b>P4,544,194</b>	<b>P3,961</b>	<b>P1,105</b>	<b>P4,750</b>	<b>P9,816</b>	<b>P43,522</b>	<b>P4,597,532</b>

<sup>(a)</sup>Excluding cash on hand amounting to P110,680.

<sup>(b)</sup>Included under "Other noncurrent assets."

The table below shows the credit quality of the Group's financial assets classified as neither past due nor impaired as at December 31, 2014 and 2013:

	2014			2013		
	Neither Past Due nor Impaired			Neither Past Due nor Impaired		
	High Quality	Standard Quality	Total	High Quality	Standard Quality	Total
<b>Loans and Receivables</b>						
Cash and cash equivalents <sup>(a)</sup>	P3,207,665	P-	P3,207,665	P4,106,988	P-	P4,106,988
Trade and other receivables - net	75,853	-	75,853	247,830	-	247,830
Rental and security deposits <sup>(b)</sup>	5,208	-	5,208	5,302	-	5,302
AFS financial assets	186,355	-	186,355	184,074	-	184,074
	<b>P3,475,081</b>	<b>P-</b>	<b>P3,475,081</b>	<b>P4,544,194</b>	<b>P-</b>	<b>P4,544,194</b>

<sup>(a)</sup>Excluding cash on hand amounting to P60,000 and P110,680 as at December 31, 2014 and 2013, respectively

<sup>(b)</sup>Included under "Other noncurrent assets."

### Credit Quality of Financial Assets

The credit quality of financial assets is managed by the Group using high quality and standard quality as internal credit ratings.

**High Quality.** Pertains to receivables from counterparties who are not expected by the Group to default in settling its obligation. Thus, credit risk exposure is minimal. Financial assets with high credit quality are normally collected within the credit period and without history of default collection.

*Standard Quality.* Other financial assets not belonging to high quality financial assets are included in this category.

*Liquidity Risk.* Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatch of the maturities of financial assets and liabilities.

The Group's objective is to maintain continuity of funding. The Group's liquidity risk management policy is to measure and forecast its cash commitments, to match debt maturities with the assets being financed, to maintain a diversity of funding sources with its access to bank financing and the capital market and to hold a sufficient level of cash reserves.

The Group monitors its risk to shortage of funds by considering the maturity of both its financial assets and liabilities projected cash flows.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities used to manage liquidity as at December 31, 2014 and 2013 of the continuing operations based on contractual undiscounted payments.

	2014					Total
	Within 30 Days	31 to 60 Days	61 to 90 Days	91 to 120 Days	More than 120 Days	
<b>Financial Assets</b>						
Cash and cash equivalents*	₱3,207,665	₱-	₱-	₱-	₱-	₱3,207,665
AFS financial assets	186,355	-	-	-	-	186,355
Trade and other receivables	67,896	1,083	271	-	6,603	75,853
Rental and security deposits	-	-	-	-	5,208	5,208
<b>Total undiscounted financial assets</b>	<b>3,461,916</b>	<b>1,083</b>	<b>271</b>	<b>-</b>	<b>11,811</b>	<b>3,475,081</b>
<b>Financial Liabilities</b>						
Trade payables	₱4,450	₱-	₱-	₱-	₱14,851	₱19,301
Accrued expenses	8,741	-	-	-	5,506	14,247
Other current liabilities	-	54	-	-	267	321
Due to related parties	-	-	-	-	53	53
Dividends payable	-	-	-	-	6,554	6,554
<b>Total undiscounted financial liabilities</b>	<b>13,191</b>	<b>54</b>	<b>-</b>	<b>-</b>	<b>27,231</b>	<b>40,476</b>
<b>Net undiscounted financial assets (liabilities)</b>	<b>₱3,448,725</b>	<b>₱1,029</b>	<b>₱271</b>	<b>₱-</b>	<b>(₱15,420)</b>	<b>₱3,434,605</b>

\*Excluding cash on hand amounting to ₱60,000.

	2013					Total
	Within 30 Days	31-60 Days	61-90 Days	91-120 Days	More than 120 Days	
<b>Financial Assets</b>						
Cash and cash equivalents*	₱4,106,988	₱-	₱-	₱-	₱-	₱4,106,988
AFS financial assets	184,074	-	-	-	-	184,074
Trade and other receivables	247,830	3,961	1,105	-	4,750	257,646
Rental and security deposits	-	-	-	-	5,302	5,302
<b>Total undiscounted financial assets</b>	<b>4,538,892</b>	<b>3,961</b>	<b>1,105</b>	<b>-</b>	<b>10,052</b>	<b>4,554,010</b>
<b>Financial Liabilities</b>						
Trade payables	11,412	-	-	-	11,386	22,798
Accrued expenses	5,554	567	1,314	356	7,224	15,015
Other current liabilities	2,931	110	110	110	723	3,984
Due to related parties	154	-	-	-	-	154
Dividends payable	-	-	-	-	6,554	6,554
<b>Total undiscounted financial liabilities</b>	<b>20,051</b>	<b>677</b>	<b>1,424</b>	<b>466</b>	<b>25,887</b>	<b>48,505</b>
<b>Net undiscounted financial assets (liabilities)</b>	<b>₱4,518,841</b>	<b>₱3,284</b>	<b>(₱319)</b>	<b>(₱466)</b>	<b>(₱15,835)</b>	<b>₱4,505,505</b>

\*Excluding cash on hand amounting to ₱110,580.

### Derivatives

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively.

The Group entered into forward currency derivative in 2014 and 2013 to manage foreign currency risks arising from its dollar denominated transactions. These derivatives are accounted for as transactions not designated as hedges.

In 2014, the Group entered into buy Philippine Peso and sell US Dollar forward contract with an aggregate notional amount of US\$25.0 million and a weighted average contracted forward rate of ₱43.96 to US\$1.00 which matured in 2014.

The net movements in fair value changes of all derivative instruments for the year ended December 31, 2014 and 2013 follows:

	2014	2013
Balance at beginning of year	₱-	₱1,358
Net changes in fair value of derivatives not designated as accounting hedges	<b>12,658</b>	(103)
	<b>12,658</b>	1,255
Fair value of settled instruments	<b>(12,658)</b>	(1,255)
Balance at end of year	₱-	₱-

These contracts are carried at fair value in the consolidated statement of financial position. The fair value of these contracts is based on valuations technique using observable market inputs (Level 2).

### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group competes in an industry where opportunities for growth still abound. Projects are selected if their expected returns are higher than cost of capital. Fundings are sourced from a combination of retained earnings, debt and new capital. The Group aims for flexibility in the capital structure to meet changing conditions and adapt with minimum cost and delay. It looks at solvency by keeping its debt capacity within its ability to generate future cash flows.

The Group is not subject to externally imposed capital requirements. The table below summarizes the capital components of the Group.

	2014	2013
Capital stock	<b>₱1,148,535</b>	₱1,071,773
Additional paid-in capital	<b>451,364</b>	451,364
Parent shares held by a subsidiary	<b>(1,149,886)</b>	-
Other equity reserves	<b>120,518</b>	101,245
Retained earnings	<b>2,868,013</b>	2,888,862
	<b>₱3,438,544</b>	₱4,513,244

Fair Values

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Cash and Cash Equivalents, Trade and Other Receivables, and Trade and Other Payables.* Due to the short-term nature of the financial assets and liabilities, the fair value approximates the carrying amounts at initial recognition.

*Rental and Security Deposits.* The estimated fair values of rental and security deposits are based on the discounted values of future cash flows using as discount rate the prevailing MART1 rates that are specific to the tenor of the instruments' cash flows as of financial reporting date. The discount rates used in determining the fair values of rental and security deposits range from 3.33% to 2.83% in 2014 and 2013, respectively.

*AFS Financial Assets.* Quoted market prices have been used to determine the fair value of AFS financial assets.

The Group's financial instruments measured at fair value have the following hierarchy levels:

- Level 1 - at quoted prices in active market;
- Level 2 - at inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - at inputs that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's financial assets as at December 31, 2014 and 2013:

	2014				2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and receivables -								
Rental and security deposits	P=	P4,453	-	P4,453	P=	P4,938	P=	P4,938
AFS financial assets	186,355	-	-	186,355	184,075	-	-	184,075
	<b>P186,355</b>	<b>P4,453</b>	<b>P=</b>	<b>P190,808</b>	<b>P184,075</b>	<b>P4,938</b>	<b>P=</b>	<b>P189,013</b>

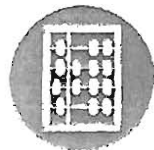
For the years ended December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements.

PAXYS, INC.

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**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
FOR THE YEAR ENDED DECEMBER 31, 2014

Retained earnings at beginning of year	₱9,076,171
Unrealized foreign exchange gain in 2013	(19,402,203)
Retained earnings at beginning of year as adjusted	(10,326,032)
Add net income actually realized during the year	9,508,892
Deficit at end of year	(₱817,140)
Reconciliation:	
Deficit at end of year as shown in the separate financial statements	(₱1,412,641)
Unrealized foreign exchange loss in 2014	595,501
Deficit at end of year	(₱817,140)



# REYES TACANDONG & Co.

FIRM PRINCIPLES. WISE SOLUTIONS.

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8741 Paseo de Roxas  
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Phone: +632 982 9100  
Fax : +632 982 9111  
BOA/PRC Accreditation No. 4782  
November 12, 2012, valid until December 31, 2015  
SEC Accreditation No. 0207-FR-1 (Group A)  
September 5, 2013, valid until September 5, 2016

## REPORT OF INDEPENDENT AUDITOR ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors  
Paxys, Inc.  
15th Floor, 6750 Ayala Office Tower  
Ayala Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Paxys, Inc. and Subsidiaries (the Group) as at and for the year ended December 31, 2014 (with comparative figures for 2013 and 2012), and have issued our report thereon dated March 24, 2015. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary schedules listed in the Index to Consolidated Financial Statements, Supplementary Schedules on Financial Soundness Indicators and Corporate Structure are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68 Part II, as amended, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

**REYES TACANDONG & Co.**

HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until December 31, 2015

SEC Accreditation No. 0663-AR-2 Group A

Valid until April 14, 2017

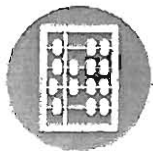
BIR Accreditation No. 08-005144-6-2013

Valid until November 26, 2016

PTR No. 4748326

Issued January 5, 2015, Makati City

March 24, 2015  
Makati City, Metro Manila



# REYES TACANDONG & Co.

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BOA/PRC Accreditation No. 4782  
November 12, 2012, valid until December 31, 2015  
SEC Accreditation No. 0207-FR-1 (Group A)  
September 6, 2013, valid until September 5, 2016

## REPORT OF INDEPENDENT AUDITOR ON SUPPLEMENTARY SCHEDULE

The Stockholders and the Board of Directors  
Paxys, Inc.  
15th Floor, 6750 Ayala Office Tower  
Ayala Avenue, Makati City

We have audited the accompanying consolidated financial statements of Paxys, Inc. (the Company) and Subsidiaries (the Group) as at and for the year ended December 31, 2014 (with comparative figures for 2013 and 2012), and have issued our report thereon dated March 24, 2015. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary Schedule of Adoption of Effective Accounting Standards and Interpretations is the responsibility of the Group's management. This schedule is presented for purposes of complying with Securities Regulation Code Rule 68, as amended, and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**REYES TACANDONG & Co.**

HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until December 31, 2015

SEC Accreditation No. 0663-AR-2 Group A

Valid until April 14, 2017

BIR Accreditation No. D8-005144-6-2013

Valid until November 26, 2016

PTR No. 4748326

Issued January 5, 2015, Makati City

March 24, 2015  
Makati City, Metro Manila

**Paxys Inc. and Subsidiaries**  
**Schedule A: Financial Assets**  
**December 31, 2014**

*(Amount in Thousands, except on no. of units)*

Name of issuing entity and association of each issue	Number of Shares or Principal Amount of Bonds	Amount Shown in the Statement of Financial Position	Income Received and Accrued
<b>Cash in Banks</b>			
Union Bank of the Philippines (UBP)	–	₱6,198	₱462
Bank of the Philippine Islands (BPI)	–	5,285	394
Australia and New Zealand Banking Group	–	8,440	629
Banco de Oro (BDO)	–	4,327	322
Rizal Commercial Banking Corporation (RCBC)	–	125	9
Security Bank Corporation (SBC)	–	5,616	418
J.P. Morgan Chase Bank (JPM)	–	10,243	763
		40,234	2,997
<b>Cash Equivalents</b>			
BDO	–	870,808	9,803
SBC	–	1,161,608	13,076
UBP	–	120,000	1,350
JPM	–	1,015,015	11,427
		3,167,431	35,656
		3,207,665	38,653
<b>Available-for-Sale Financial Assets</b>			
Fixed Income Investments:			
JPM - Bonds	\$1,000,000	44,840	–
JPM - ARFI	\$2,000,000	90,913	–
		135,753	–
Investments in UITF:			
BDO	20,715 units	30,490	–
UBP	76,940 units	10,035	–
RCBC	7,094,840 units	10,077	–
		50,602	–
		186,355	–
<b>Trade and Other Receivables</b>			
Trade	–	63,492	–
Due from related parties	–	9,127	–
Others	–	3,234	197
		75,853	197
<b>TOTAL</b>		<b>₱3,469,873</b>	<b>₱38,850</b>



**Paxys Inc. and Subsidiaries**

**Schedule B: Amounts receivable from directors, officers, employees, related parties and principal stockholders (other than related parties)**

**December 31, 2014**

*(Amount in Thousands)*

	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Noncurrent	Balance at end of year
Advances to officers and employees	₱1,343	₱-	₱854	₱-	₱489	₱-	₱489

**PAXYS, INC.**  
**Schedule C: Amounts Receivable from Related Parties**  
**Eliminated during the Consolidation of Financial Statements**  
**December 31, 2014**  
*(Amount in Thousands)*

<i>Due from Related Parties</i>	Balance at beginning of year	Additions	Amounts collected	Current	Noncurrent	Balance at end of year
Paxys N.V.	₱13,203	₱2,912	₱-	₱16,115	₱-	₱16,115
Scopeworks Asia, Inc.	62,399	7,573	10,000	59,973	-	59,973
Paxys Global Services, Inc.	82,493	-	19,179	63,314	-	63,314
Paxys Global Services Ltd.	48,276	-	1,808	46,467	-	46,467
Paxys Ltd.	10,455	177	-	10,632	-	10,632
Paxys Global Services Ltd. ROHQ	2,333	-	-	205	-	205
	₱219,159	₱10,662	₱30,987	₱196,706	₱-	₱196,706

**PAXYS, INC.**  
**Schedule D: Intangible Assets**  
**December 31, 2014**  
*(Amount in Thousands)*

Description	Net Book Value, 1Jan2014	Additions	Amortization	Net Book Value, 31Dec2014
<b><u>With definite useful life</u></b> Website and Software Packages	<b>₱5,117</b>	<b>₱969</b>	<b>(₱3,399)</b>	<b>₱2,687</b>

**PAXYS, INC.**  
**Schedule H: Capital Stock**  
**December 31, 2014**

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Public ownership
Common	1,800,000,000	1,148,534,866		976,686,315*	219,800	171,848,551

\* Includes 219,800 shares held by directors, officers and employees

**Schedule I: Schedule of Effective Standards and Interpretations  
December 31, 2014**

Title	Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b>			
Conceptual Framework Phase A: Objectives and qualitative characteristics	✓		
PFRSs Practice Statement Management Commentary			✓

**Philippine Financial Reporting Standards (PFRSs)**

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓

<b>PFRS</b>	<b>Title</b>	<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
PFRS 5	Non-current Assets Held-for-Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
PFRS 8	Operating Segments	✓		
PFRS 9*	Financial Instruments	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
PFRS 10*	Consolidated Financial Statements	✓		
PFRS 11*	Joint Arrangements	✓		
PFRS 12*	Disclosure of Interests in Other Entities	✓		
PFRS 13*	Fair Value Measurement	✓		

**Philippine Accounting Standards (PASs)**

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19 (Amended)*	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 27 (Amended)*	Separate Financial Statements	✓		
PAS 28 (Amended)*	Investments in Associates and Joint Ventures	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting		✓	
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items	✓		
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓

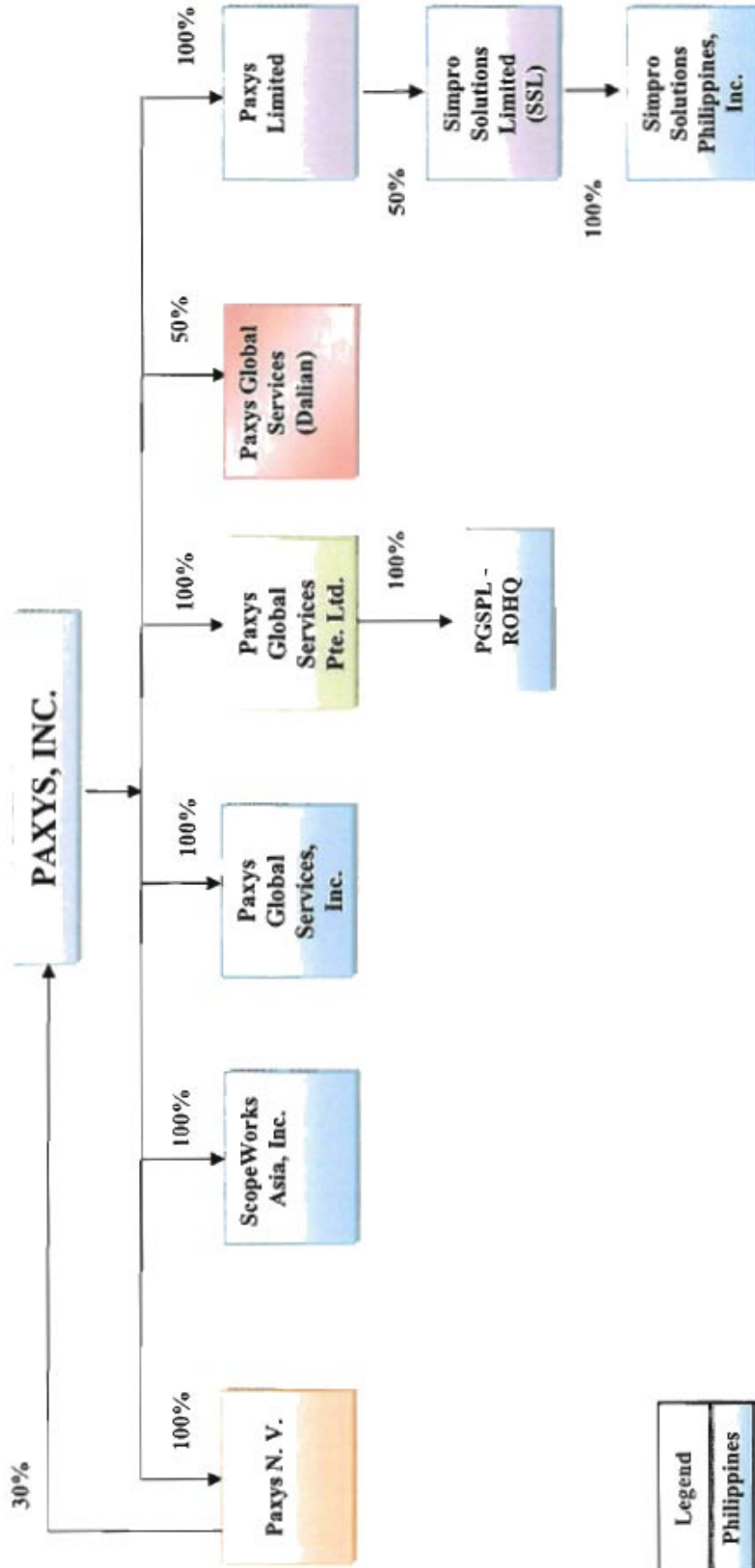


## PHILIPPINE INTERPRETATIONS

No.	Title	Adopted	Not Adopted	Not Applicable
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 11	PFRS 2 - Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓

No.	Title	Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs	✓		

**PAXYS, INC.**  
 Schedule J: Group's Organizational Structure  
 December 31, 2014



Legend
Philippines
China
Singapore
Curacao
Hong Kong

**PAXYS, INC.**

**Schedule K: Reconciliation of Retained Earnings Available for Dividend Declaration**

**December 31, 2014**

<b>Unappropriated Retained Earnings, beginning per books</b>		<b>P9,076,171</b>
Accumulated non-actual/ unrealized income and expenses in prior years		<b>(19,402,203)</b>
<b>Unappropriated Retained Earnings, as adjusted, beginning</b>		<b>(P10,326,032)</b>
<b>Add: Net income actually earned realized during the period</b>		
Net income (loss) during the period closed to Retained earnings	<b>(P10,488,812)</b>	
Unrealized foreign exchange loss in 2013, realized in 2014	<b>19,402,203</b>	
Unrealized foreign exchange gain – net	<b>595,501</b>	
<b>Net income (loss) actually earned during the period</b>		<b>9,508,892</b>
<b>Total Retained Earnings (Deficit), End – Available for Dividend Declaration</b>		<b>(P817,140)</b>

**PAXYS, INC.**  
**Schedule L: Schedule of Financial Ratios**  
**December 31, 2014**

<b>Ratios</b>	<b>Formula</b>
1) Net Service Income	: Service Income less discounts and allowances
2) Gross Profit Margin	: Gross profit/ Net Service Income
3) EBITDA	: Earnings Before Interest, Taxes, Depreciation and Amortization
4) EBITDA Margin	: EBITDA/ Net Service Income
5) Income from Operations	: Gross Profit – Operating Expenses
6) Net Income Margin	: Net Income/ Net Service Income
7) Return on Equity	: Net Income/[(Equity end + Equity beg – Net Income)/2]
8) Current Ratio	: Current Assets/Current Liabilities

The following are the major financial ratios of the Company for the year ended December 31, 2014 and year ended December 31, 2013:

<b>As of and for the full year ended 31 December</b>	<b>2014</b>	<b>2013</b>	<b>Y14 vs Y13</b>
Financial Ratios:			
Current Ratio	<b>71.9:1</b>	<b>79.6:1</b>	(10%)
Debt to Equity Ratio	<b>0.02:1</b>	<b>0.01:1</b>	(100%)
Return on Equity	<b>(1%)</b>	<b>(2%)</b>	50%
EBITDA Margin	<b>(31%)</b>	<b>(63%)</b>	51%
Net Income margin	<b>(14%)</b>	<b>(47%)</b>	70%

**PROXY**

**KNOW ALL MEN BY THESE PRESENTS:**

\_\_\_\_\_, a stockholder of **PAXYS, INC.**,  
hereby appoints

\_\_\_\_\_

as his proxy to represent him, act in his behalf and vote all shares registered in his name in the books of the above-mentioned corporation at the annual meeting of the stockholders of said corporation on December 3, 2015, and any adjournments and postponements thereof, as fully to all intents and purposes as he might do if present and acting in person.

\_\_\_\_\_  
Date

\_\_\_\_\_  
Printed Name and Signature  
of Stockholder

SIGNED IN THE PRESENCE OF:

\_\_\_\_\_